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UGANDA CONFERENCE ON PRIVATISATION

KAMPALA INTERNATIONAL CONFERENCE CENTRE

APRIL 23–27, 1989

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CONTENTS

AVANT-PROPOS

The first Ugandan Conference on Privatisation was held at the Kampala International Conference Centre from April 23–27, 1989. The opening ceremony was presided over by His Excellency Yoweri Kaguta Museveni, President of the Republic of Uganda, and was attended by cabinet ministers, members of the diplomatic corps, members of the donor community, representatives of the public and private sectors, members of the academic community, and special guest speakers.

The conference was sponsored and organised by the Office of the Prime Minister and Uganda Commercial Bank and funded by the Agency for International Development. Dr. Higiro-Semagere, professor of economics at Makerere University, served as overall moderator. Although some guest speakers and panelists came from foreign countries, most presenters were Ugandans who provided real insight into privatisation and private sector development issues as well as the role of the Government in the post privatisation period.

Privatisation means different things to different people, but as one speaker pointed out, it should not be looked at as either a tiger to be shot or a cow to be milked but rather a hard working horse to be nourished. The overall consensus of the conference was that public and private sectors are partners in development; therefore, they must play supportive and complementary roles. In general, privatisation is Government-led activity. Therefore, the Government must act as a facilitator and provide the necessary incentives, the basic infrastructure, the legal and the institutional framework, and a conducive environment in which the private sector can grow. The private sector works harder than the public sector for fear of bankruptcy. Because Ugandan society is private ownership oriented, the private sector is expected to play a major role in the pursuit of economic development and growth. But, while pursuing the fulfillment of its selfish interest, the private sector was called upon to bear some social responsibilities and strictly observe rules of business ethics.

In view of the current state of the Ugandan economy, both private and public sectors require increased managerial efficiency and transfer of appropriate technology in order to increase productivity.

The major constraints to a successful privatisation programme were clearly spelled out, ranging from lack of financing and shortage of managerial and technical skills to inadequate infrastructure and ill-conceived public policies. Because of these constraints, privatisation is conceived as a long-term process that will require an enormous amount of resources.

This report reprints the agenda and all of the major speeches, regrouped in seven modules. A separate report summarises the conference's main themes and the basic recommendations.

OPENING REMARKS

His Excellency Yoweri Kaguta Museveni
President of the Republic of Uganda

Mr. Chairman, Ladies and Gentlemen,

It is a pleasure for me to be here this morning to open a conference that is aimed at clarifying some fundamental aspects of the Ugandan economy. Many of you are no doubt aware that we are now in the second year of an economic programme which is intended to bring about a structural transformation of the economy. It is popularly known as a "structural adjustment programme." Since privatisation is a subset of this programme, it is worthwhile to take time to explore the various dimensions of this programme and place privatisation in a proper context within this programme. Our discussions must be guided by a determination to unearth the true benefits our country is likely to actually realise vis a vis the real costs our population may suffer because of these policies, not only in the short term but also in the long term.

It is now clear that the interpretation of structural adjustment differs from country to country and even from time to time within the same country. But whether some interpretations emphasise discipline in the control of budgetary expenditures, while other interpretations emphasise interest rates or exchange rates or even privatisation, it is essential that we keep our focus on the strategic objective, namely, the "strategic" goal is to transform the relationships among the factors of production in a manner that will make them more efficient and, therefore, more productive than they are today. The substitution of a hoe by a tractor, for example, alters the ratio of capital to labour on the farm. The tractor increases the amount of capital per worker and per acre of land. Similarly, the acquisition of a bicycle by a pedestrian increases the capital-labour ratio and increases the load which can be carried while shortening the time of delivery. Motorised transport is even more dramatic. It is thus intuitively obvious that the increased availability of tractors, trucks, bicycles, electric power, motors, and various industrial machinery points in the correct direction towards structural transformation. It increases the productive power of the population and it has been and will continue to be central in the economic policy of the NRM government. One interpretation of structural adjustment with which we agree, therefore, is that the structure of production at the microeconomic level must change, and we will change it.

But there is another aspect of economic structure which is the focus of this conference. This is the issue of ownership or, more specifically, the structure of ownership. As the structure of production changes, the problem of ownership becomes increasingly important: who owns the tractor? the bicycle? the factory? How is the income produced shared between the owners of machinery vis a vis those who provide labour? And, equally important, does the manner in which income is distributed among workers and owners of capital affect the efficiency and productivity of the enterprise? Does public ownership of capital equipment affect the productive efficiency of that capital? Does the divestiture of that capital from public to private ownership increase or decrease its efficiency? These are certainly some of the key questions to be asked and hopefully clarified at this conference.

Our approach to these issues is scientific rather than ideological and it is important that our friends throughout the world understand and respect our stand. It is very well-known that we have fully embraced the concept of a mixed economy. Although we have taken every opportunity to explain what we mean by a mixed economy, some individuals, especially in our press, seem to think that a mixed economy is a good excuse for them to be mixed up. This, of course, need not be so. For us, a mixed economy means simply that the public sector and the private sector will work together to advance economic stability, economic growth, and economic justice. Very simply stated, our government believes in fiscal and monetary policies which promote a balance between economic stability on the one hand and the responsibility for basic infrastructure such as roads, schools, power, etc., without which the private sector could not function at all. Secondly, our government also recognises that it must take the lead in some areas of development where the private sector is ill-equipped or unable to establish enterprises. It is obvious that the entrepreneurial class is extremely limited here. Moreover, experience elsewhere, especially among the newly industrialised countries (NICs) suggests that active government intervention is essential if rapid economic development is to occur. We must be guided by a scientific determination to maximise efficiency as opposed to a blind ideology to *laissez faire* economics. We encourage free enterprise and certainly our economy is one of the freest in the world. Barring illegal activities, our citizens are free to carry out virtually any business they want, anywhere and anytime. Ours is a true free enterprise system. However, we have got quite a number of public enterprises. These, however, are not necessarily a problem. Moreover, many countries in the world have parastatals to a certain degree.

In my view, the privatisation issue as far as Uganda is concerned is an issue of economic efficiency. Uganda's resources must be carefully utilised to yield maximum goods and services for the population with a minimum of waste. The value added by an enterprise must exceed the value consumed by that enterprise. A public enterprise which persistently consumes more resources than it produces will not be tolerated by Government. Enterprises which provide vital public goods such as water, sewage disposal, universities, etc., are obviously in a special category. Their benefits usually lie outside the simple calculus of immediate profit. However, enterprises which do not fall in this category of providing vital public goods, and which fail to justify their existence will come under maximum pressure from our government and may culminate in closure and/or divestiture. Whenever it is demonstrated that the private sector can operate an enterprise more efficiently than public enterprise can, we shall be interested in taking advantage of the offer to increase our productive efficiency.

It is important, however, not to underestimate the problems of divestiture or privatisation for an economy like ours (I assume that since free enterprise is freely allowed in Uganda, the issue of privatisation can only refer to the transfer of parastatals from public ownership to private ownership). When government decides to divest itself of an enterprise it may either give it away or sell it. In our case, we have to sell the enterprises because we cannot turn public property into free gifts for select individuals. But if we are to sell the enterprises then there must be buyers. But do we have Ugandan capitalists capable of buying enterprises valued, according to one estimate, at one billion U.S. dollars, which is equivalent to 200 billion shillings? The total money supply of Uganda is less than 50 billion shillings. The total assets of the commercial banks in Uganda was a mere 46 billion shillings on January 31, 1989. Total deposits of these banks was only 21 billion shillings and total deposits constitute the pool of funds from which banks can lend. So where will the money to buy these enterprises come from? It there going to be pressure to sell these public enterprises to foreigners? Is that what is meant by debt-equity swap? We must obviously examine these issues very carefully. This conference must clarify the benefits and costs of these proposals to the people of Uganda.

It is also a well-known fact that Uganda's public sector is one of the smallest in the world. The ratio of government expenditure to GDP is about 10 percent, compared to 25 percent in the United States, 40 percent in Egypt, 49 percent in Botswana, 38 percent in Zambia, 35 percent in Zimbabwe, and so on. The percentages in European countries are also much higher than ours. We must bear these facts in mind as we discuss privatisation. In our context, it is clear that we are not yet providing sufficient public expenditure per head of population. One might even say that there is a case for the expansion of the public sector rather than its generalised contraction.

An additional issue critical to the privatisation debate is the management crisis we face in this country. For it is not quite clear whether public enterprise in Uganda is inherently inefficient or whether it is simply the lack of good managers which is the main cause of inefficiency. We have public enterprises which are making hugh profits, competing with private enterprises in the same industry and doing very well. This is true, for example, of the soft drinks industry. Therefore, it cannot be safely said that public enterprises cannot be more profitable than private enterprises in the same industry. This is where the issue of management comes in. Will the substitution of inefficient private managers for inefficient public managers benefit Uganda? Clearly not. This again calls for a realistic approach to the issue, an objective and unbiased evaluation of privatisation, vis a vis public enterprise.

What then do I see as the correct context for the privatisation debate? We know that the approach taken by the free market theoreticians is to stress the structure of incentives—wages, interest rates, profits, prices, rents, etc. The private sector competing through free markets is thought to be most capable of mobilising Uganda's workers, capital, entrepreneurs, etc., to make the maximum possible contribution to the development effort. Free markets are thought to set correct prices and induce resources to those industries and products which society values the most. Moreover, the freedom of entrepreneurs to enter any industry of their choice is said to ensure competition which in turn prevents exploitative monopolies from developing. We do not dispute the advantages of markets and we have free markets throughout this country. But this does not mean that markets are perfect. The infallibility of market forces cannot be taken for granted here. Indeed, even in the industrialised countries it is not uncommon to have extensive regulations of markets, for instance, of the stock exchange markets where company shares are bought and sold and which are at the heart of the market economies of the West. The correct context for the privatisation debate, therefore, is to strike a balance between the advantages of market forces and the advantages of public enterprise given Uganda's very unique need for rapid rehabilitation, development, and growth. The issue is clearly not whether or not

Government has a role to play. It has. The real issue is the correct balance between public and private enterprise in Uganda. We want a healthy balance, and a harmonious relationship between the public sector and the private sector. We believe that they should be mutually supportive of each other and this is the spirit in which this conference should be conducted.

Let me conclude my remarks by summarising the salient issues as I see them:

- First, we are determined to bring about a transformation of the economic structure in this country. This transformation has the strategic goal of promoting greater productive efficiency in agriculture, industry, and services throughout Uganda. We shall continue to import machine technologies and to encourage our people to learn to use them and to build more efficient tools of production.

- Second, we are flexible about the structure of ownership especially insofar as it is consistent with economic justice in the sense of maintaining an equitable distribution of income. Our people are free to start enterprises and become enterprising capitalists provided they operate within the laws of Uganda.

- Third, we are committed to the building of a mixed economy in which public enterprise coexists harmoniously with private enterprise and in which the benefits of social capital and infrastructure are combined with the benefits of free markets for the benefit of Ugandans.

- Fourth, we must confront the critical shortage of efficient management in this country and not allow the privatisation issue to obscure the scarcity of efficient management of both the private and public sectors.

- Fifth, and final point, we must continue to seek the correct balance between public and private enterprise. We must remember that the correct balance will vary from country to country and from time to time even in the same country. It is, therefore, a dynamic balance, calling for extensive public expenditure at a time of economic reconstruction such as this one, and perhaps for more private enterprise as the infrastructure is increasingly restored.

This then is the true context in which the privatisation issue should be explored. I support the privatisation debate as a contribution to the goal of economic freedom to which our government is indisputably dedicated. The structures of production and ownership are evolving freely in Uganda. The national resistance government is founded on freedom as its most central principle. We shall continue to fight for freedom throughout Uganda, championing both political as well as economic freedom. We want our commitment to political and economic freedom to stand out like a beacon on a high hill for all our people and all our friends throughout the world to see.

Before I conclude my remarks on the theme of the conference, I like to stress that, in my view, the most urgent task facing backward countries in Africa, especially a country like Uganda, is to transform their backward economies, based as they are on a low level of technology and a low level of management, to economies based on intermediate technology and more advanced forms of management. This is the crucial task. This is why, for instance, we in the NRM lay emphasis on the regulation of the inflows and outflows of resources in and out of our country. Therefore, the struggle is to ensure that there is a positive inflow of resources as well as a positive inflow of development energies.

The reason we have made some little progress, in these few years, is because we control the inflow and outflow of resources. We do not allow, for instance, foreign exchange, which represents the only capacity we have to buy machinery and technology from outside, to just flow out without regulation. I think for a backward country like ours, this is a very crucial relationship. How much resources flow in and how much resources flow out.

If there is a negative outflow of resources, specifically foreign exchange of hard currencies, which means the currencies of the advanced countries, with which we can buy technology and machines to utilise and to exploit our natural resources, and, therefore, to cause development, then I am afraid we cannot make it. Every effort must be made to develop an economy that has some internal harmony. And I think this is the relationship that should be emphasised.

Another point that should be emphasised is the development of an economy which is integrated within itself. Of course, this is not in conflict with public or private ownership. You can have an integrated economy whether you are emphasising public ownership or private ownership. It is crucial that we point this out, so that when we are engaged in a debate on what should be done for the backward countries, this emphasis should be made very clear.

I know that market forces emphasise hard work, which is commensurate with greater rewards. But take this example: when we were waging war in the bush, what sort of enterprise was that? Was it private or public? And how many of us died? How many of us were maimed? And what was our profit? I think there is a philosophical danger to transform human selfishness, i.e., human tendency to work hard on your own, into a philosophy of life. I would hesitate to say that this should be a way of life, that this should be the ideal. This, in my view, is tantamount to saying that man is basically selfish and the only way to get anything out of him is to use selfishness and to abandon all attempt to utilise the altruistic instinct in man which may be there. It may be only 5 percent—but let us utilise that 5 percent of his altruism and 95 percent—the bulk, which is his selfishness. This is why we in the NRM have opted for a mixed approach. When we can get committed managers, who can manage a public enterprise well, we utilise them. On the other hand, if we do not have many committed managers, that is, socially conscious managers, those who can work for the public as hard as they work for themselves, then we take the advantage of the private ones. Why? Because those who are working for themselves very hard are in the process of working for the country, albeit, indirectly.

In conclusion, let me pay tribute to the individuals and organisations that have contributed to this conference. Special tribute goes to the USAID which was contributed substantial resources for the organisation of this conference. I want to encourage you and other aid agencies to continue to sponsor conferences which contribute to our knowledge of important subjects, and I look forward to the report which will come from this conference.

Ladies and gentlemen, it is now my pleasure to declare the conference on privatisation open.

Thank you.

PRIVATE SECTOR DEVELOPMENT—UGANDA'S EXPERIENCE

Dr. Frank A. Mwine

INTRODUCTION

In recent years and especially during the past year, there has been considerable rethinking and new assessment of development strategies in Uganda prompted, on one hand, by the poor performance of the economy over the past two decades and, on the other, by the avowed determination of the NRM's Government to build an independent, self-sustaining, and integrated economy. The assessment has centred on a number of new perennial issues such as the harmonisation of stabilisation policies with growth policies, encouragement of greater export orientation, and new approaches to poverty alleviation. Equally important as an issue is the role of the private sector in the development of our country.

As an active participant in this assessment, I have been particularly delighted to note that there is overwhelming consensus that Uganda is a relatively easy country to develop given its abundant resources, structure of resource ownership, and hardworking people. All of us agree that if, for a change, Ugandans can be correctly directed, effectively motivated, and given the necessary international support and resources, this country could be restored to its past glory faster than critics predict and march forth on the road to recovery.

This Conference on Privatisation, I believe, affords us a fine opportunity to explore further ways of enhancing private sector effectiveness and participation in the development of our national economy. Personally, I am happy that this Conference is taking place at this time in the history of our beloved country. We are now in the midst of an adjustment programme that is fostering a new division of labour between the public and private sectors. This programme also seeks, above all, to support a competitive and efficient private sector.

It is no secret that Uganda is a private enterprise oriented society, with private farms and business accounting for the bulk of our national output. While the role of the private sector has always been at the centre of many an ideological debate in this country and has frequently conditioned both development strategies and policies, it is only now in our history that serious consideration is being given to private sector development as a means of transforming the national economy.

My task today is to share with you thoughts on the importance of the private sector and its role as "principal engine" of development in Uganda.
I propose first to give an outline of the characteristics of the private sector. Secondly, I shall assess the impact of the sector with particular reference to the social and economic developments since Independence. Then, I shall make specific recommendations for strengthening the private sector so as to make it more effective in the task of national rehabilitation and development.

While subscribing to the strategy of a mixed economy, my thesis is that government should increasingly work toward promoting economic efficiency through motivation, direction, and regulation, while the private sector should be encouraged to dominate commerce, transport, and other directly productive activities in agriculture and industry.

Those public sector enterprises which have over the years proved to be least profitable should either be sold to the private sector or be totally liquidated instead of being allowed to drain our meagre national resources.

I will also argue that privatisation in Uganda should be guided by one important criteria, namely, that Ugandan citizens should be afforded *first* priority to own *and* manage privatised enterprises, as a matter of right and justice.

Finally, I will appeal to the International donor community to support government's determination to embark on privatisation by extending soft loans and grants that will enable those citizens who cannot afford to pay the market price of the properties to be privatised, or to mobilise the sufficient resources necessary to rehabilitate and develop these enterprises after they have been acquired.

CHARACTERISTICS OF THE PRIVATE SECTOR IN UGANDA

Uganda's main distinguishing characteristic from many other Third World countries is that it is basically *not* a wage economy. The majority of the population are property owners; the strategic resource, land, is in the hands of private citizens. They grow a variety of crops both for their consumption and for sale, rear some animals, and own their private homes.

In some other parts of the country, land is communally owned but even here individuals are free to utilise it along acceptable terms for subsistence. This form of land ownership presents a deterrent to development along modern lines. For instance, one is not quite free to fence off some land for modern farming without causing social resentments or it may not be quite acceptable to come up with a tractor and cultivate an expanse of land for what will appear to give the individual undue advantage over the neighbours.

There are, thus, obvious shortcomings in land ownership in this country that call for the review of the land law with a view to coming up with a major reform. I must stress, however, that, by and large, the majority of our population has access to land and this has saved the country from a catastrophe during our turbulent past. For example, food in Uganda has never been a major problem. This historical legacy has definite advantages in enhancing individual development. Even in areas where land is communally owned, the crops and livestock on it belong to the individuals. The majority of Ugandans, ladies and gentlemen, are *what I would call* "underdeveloped *capitalists*." It follows, therefore, that most Ugandans would appreciate measures that would help them to build up a capital base along the *lines* of private ownership for individual progress and national prosperity.

FORMS OF PRIVATE BUSINESS ORGANISATIONS IN UGANDA

As most of you know, private business in Uganda is organised along five main lines:

1. Sole proprietorships;
2. Partnerships;
3. Limited liability companies (corporations);
4. Co-operatives; and
5. Joint ventures.

The sole proprietorship is the simplest form of enterprise, which dominates economic activity in agriculture, commerce, and transport in Uganda. Typically, these enterprises are one-man firms. Given widespread poverty and illiteracy in the country, it is not surprising that most of these enterprises experience acute shortage of capital and lack effective management.

The fact that sole proprietors have unlimited liability means in reality that *any* investment decision taken over the uncertain future involves an element of risk. This explains why most people engaged in such enterprises, as a rule, do not take up new innovations for fear that they may not work.

The second category, partnership, unlike the sole proprietorship arrangement, has not been a popular form of business organisation in Uganda in spite of its advantages in pooling together resources, both financial and human, for business development. This form of ownership is most common with professional firms like law firms, doctors' associations, construction firms, accountants, as well as commercial organisations.

The third category, i.e., the limited liability companies, are very small enterprises often operating with inadequate capital base. They are normally formed out of sole proprietorships in order to benefit from the clause of limited liability. Frequently, directors are husband and wife, brothers, or just a few friends. Capital raised through shared contributions is frequently very small and there are many companies on record in Uganda which are not locatable because they have no premises. They only exist in briefcases! Some companies, however, have over the years built up a respectable capital base and are doing a commendable job.

The other forms of business organisation that are quite significant in Uganda are co-operatives and joint ventures. Co-operatives have mainly been concentrated in rural areas. Their major objective has been that of enhancing collective marketing of their produce. The co-operative movement is a potentially viable vehicle for economic transformation in rural areas. Unfortunately, the historical record of co-operatives has been disappointing. This was mainly due to mismanagement of these enterprises on a broad front and misguided policies of the previous governments.

There is, thus, an urgent need to overhaul the management of our co-operative societies, and for provision of training so as to strengthen the movement and address the obstacles hindering its improved performance.

Finally, we have a few joint ventures between the state and the private sector (both local and foreign). It is most unfortunate, however, that joint ventures, which provide the best avenue for both capital and technological transfer from the developed countries as well as potential to increase economic efficiency, reduction of budgetary burden, and maximisation of social benefits, rank last in numbers.

From the foregoing, it is clear that while the private sector dominates nearly all economic activities, a number of serious problems in the operations of the private sector in Uganda are worth noting.

First, the management of agriculture has largely been left to peasants. These peasants have not had adequate access to technical assistance and credit facilities and they have generally lacked organisation and education for development.

Consequently, they have over the years continued to utilise rudimentary technology. Second, business in Uganda has not been conducted the way it should be or at least not the way it is elsewhere in the world. Here, most activities are in the informal sector, most business people maintain no books of accounts, smuggling is rampant, and the relationship between government and business has over the years left a lot to be desired. Third, existing institutions have not come up with innovative and imaginative schemes to stimulate activity in the private sector. Fourth, joint ventures—whether between the state and the private sector or a Ugandan entrepreneur and a foreign investor—have not been systematically promoted. Fifth, past Government policies have *neither* ensured public sector effectiveness nor promoted private sector participation. Sixth, bureaucratic procedures of setting up enterprises and the tax system discourage the emergence of new enterprises. This partly explains why many enterprises operate informally.

The basic source of the six main problem areas described can be traced to our colonial history. During the colonial period, an economic system was developed where Uganda produced raw materials for western industries. A few import-substituting-industries heavily dependent on foreign capital were also established. Foreigners, mainly of Asian origin, dominated the entrepreneurial class and professional occupations and owned most key enterprises. Ugandans dominated activity in agriculture, which was predominantly on small hold basis. Although extension services were provided, financial institutions mainly catered for the interests of foreigners in the urban areas.

Secondly, the education system then and even now, was not tailored to provide technical and managerial skills. Thus, the capacity to manage among Ugandans has been very low and local managerial capabilities were and still are in very short supply.

Thirdly, the Nationalisation programme introduced during the post independence era by Obote and Amin in the late 60's and the 70's, with its focus on greater public involvement in production and distribution, did not truly cater for the interests of Ugandans. The programme was unplanned and its execution mismanaged. The cumulative effect of such bad policies and poor planning left behind a large inefficient and highly bureaucratic parastatal sector.

These distortions in the economy generally discouraged private sector operations and hampered the scope of private sector investment, both domestic and foreign. The IMF-backed programme of 1982 as conceived and executed did little to bring about the desired structural changes but served to worsen the distortions, widen income disparity, and reduce the effectiveness of the private sector.

Until quite recently, even local institutions, mainly banks, failed to come up with innovative schemes designed to support private sector projects. And women, who constitute approximately 50 percent of the population, were generally excluded from the development process.

In spite of these problems, however, it is remarkable that the private sector continued to play a respectable role in key areas such as production of food, provision of employment, generation of savings, *and* provision of tax revenue to the government.

POLICIES FOR PRIVATE SECTOR DEVELOPMENT UNDER NRM GOVERNMENT

When the NRM Government came to power in January 1986, it found a devastated economy characterised by low economic activity, low capacity utilisation, widespread structural and institutional bottlenecks, with no financial resource base, and a demoralised civil service. Law and order had broken down, inflation was rampant, and there was a general lack of discipline in handling both public affairs and private business. As a result of the civil strife, many people had been displaced and needed immediate relief. Vehicles and trucks had either been looted or destroyed and the general infrastructure was critically bad.

In order to reverse this trend, intensive studies and consultations were carried out to identify major economic problems and work out a package of policy measures to address them. In May 1987, the Government put in place a medium-term plan for rehabilitation and development. The plan vividly spells out the new policy direction of the NRM government, which is very supportive of private sector development and the privatisation of public enterprises.

Under this new policy, it is clear that effective structural transformation will require the strengthening and streamlining of the private sector operations. Our national objective, it must be emphasised, is not just to restore the economy, but to build an independent self-sustaining and integral national economy. To achieve this, I would like to share with you my views and recommendations for strengthening the private sector operations in Uganda.

RECOMMENDATIONS FOR STRENGTHENING PRIVATE SECTOR OPERATIONS IN UGANDA

Promotion of Integrated Programs for Development

In the light of our current economic situation, it is imperative that existing institutions, mainly the banking industry, should evolve schemes and support programmes that will help to enhance increased agricultural productivity, increased capacity utilisation in industry, and a better marketing network. In other words, there is an urgent need to design programmes with an integrated approach to development. An example of such a programme is the Rural Farmers Scheme that the Uganda Commercial Bank is pioneering. Under this Scheme, agricultural credit has been extended to our peasant farmers for the first time in our history. We have recently restructured the scheme into an integrated programme for rural development covering not only agricultural production, but also improved storage, marketing, transport, processing, and provision of improved housing in the rural areas.

Provision of Business Advisory Services

Because of our limited entrepreneurial talent and unsatisfactory supply of skilled and experienced managers, it will be necessary to intensify management training. African private enterprises managers *actually* need to embark on serious programmes of training if they are going to perform better than their counterparts in the public sector. We have seen here in Uganda typical cases of inefficiency in the private sector. A private businessman gets a good business idea. He overcomes the problems of establishing his enterprise and engages in business. But as soon as he starts generating some income, he becomes carried away with his "success." Pretty soon he starts squandering the funds earned, instead of investing in the enterprise. Thus, the successful businessman of today becomes the poor man of tomorrow and everybody starts wondering why.

Mobilisation of Capital from Local Sources

It is known that the private sector in Uganda, left to itself, does not have enough capital to meet the desired level of investment. At the same time, the banking system has limited capacity to mobilise savings and allocate them optimally without perpetuating unfair resource transfer. To finance viable private projects, the banks need to *step up* deposit mobilisation by extending banking services to all deserving areas of the country.

In this respect, I am glad to report that the Uganda Commercial Bank has been very successful. By extending its branch network in the rural areas and improving on the quality of its services, the Uganda Commercial Bank has been able to tap substantial amounts of resources into the banking sector. Today, UCB's total deposits exceed the *combined* deposits of *all* the Commercial Banks existing in the country! A fact that is frequently forgotten or often not appreciated is that structural adjustment and stabilisation programmes cannot achieve much if the banking system has no influence on the majority of the population. In a bid to transform the national economy through increased private sector participation, we should seek to extend the monetary exchange economy and develop the banking habit among the people.

Integration of Women in the Private Sector

One area that is receiving attention for the first time in the history of Uganda is meaningful integration of women into the development effort. It is clear that women produce most of the food and cash crops in Uganda and many are quite enterprising in commerce and industry either as individuals or groups. Unfortunately, however, backward cultural considerations have hampered the economic emancipation of women. In UCB we have embarked on a crusade to change these backward attitudes among our people. Under the UCB Rural Farmers Scheme, for example, priority in lending is given to women and women groups because we know that it is the women who dominate agricultural activity in rural areas. It is gratifying to note that the international community shares our conviction and many donor institutions have supported the Rural Farmers Scheme. I am glad to announce that the results have been rewarding. Fifty percent of the beneficiaries of assistance under the Rural Farmers Scheme are women! I would also like to reveal that after examining the data over the past two years, it has now been categorically established that when it comes to repayment, women are our best customers.

Establishment of the Uganda Trade Promotion and Investment Centre

If the private sector is to be effective, the government bureaucrats must stop frustrating private businessmen. Our regulations for licensing and taxing new enterprises need to be drastically changed so as to encourage and not discourage establishment of new private enterprises as is the case at the moment. The government, in close collaboration with the Chamber of Commerce, should work toward reducing bureaucracy that discourages establishment of new enterprises and imposes unnecessary costs and delays in the process of export and import transactions. To this end, the government should assist the National Chamber of Commerce in establishing a Uganda Trade Promotion Investment Centre as part of its operations to provide consultancy and advisory services to potential investors, especially about the investment opportunities in the country and on procedures for establishing new business. Another area of great concern for prospective investors, especially in the export industry, is lack of business and trade information. This proposed Centre could serve as the main government vehicle responsible for monitoring market prospects, prices, and quality as well as payment arrangements, identifying the export potential of *tradable goods*, spearheading market promotion programmes worldwide, and identifying new markets especially where Ugandan goods could be exported duty free, or otherwise without any restrictions.

Support of Small-scale Enterprises

There is now increasing interest in the activities of the small-scale industrialists, especially those producing machines and spares. The best examples of such enterprises are those in the Katwe area of Kampala. These enterprises obviously deserve government and institutional support. Unfortunately, they are poorly located relative to the capital city. It may, therefore, be necessary to establish an industrial estate with a view to resettling the people currently operating in numerous places *to one central place* to facilitate provision of support for their activities.

Presently, most of our support for small-scale enterprises has been in urban areas. In the future, emphasis should be on small-scale enterprises located in rural areas.

Revision of Our Foreign Investment Law

In order to attract foreign investments, Uganda needs to have in place legislation on foreign investments under which any prospective investor would know clearly the sectors in which he can invest, the investment guidelines and procedures, and the regulations and incentives, etc. Although this legislation is in existence, it needs to be updated, clearly documented, and widely made available to the interested public here and abroad. It must be emphasised, however, that while seeking to protect the legitimate interests of the foreign investor, we should not overlook the protection of Uganda's interests as a sovereign state because foreign investors' interests at times do not coincide with the interests of the host country. Both parties must agree to trade off costs and benefits in order to attain a mutually acceptable/beneficial position.

More specifically, I would personally advocate for strengthening our policy to promote the establishment of joint ventures wherever these are feasible. As I said earlier, not only are joint ventures a viable means of transfer of foreign capital, they are also a viable avenue for transfer of technology and skills.

Enhanced Participation of the Private Sector in the Export Trade

The Ugandan private sector is eager and willing to actively engage in the export-import trade. Government should therefore strengthen incentives to exporters in order to enhance export-led growth. The recent policy announced by government permitting exporters to retain foreign currency for use to import essential inputs is a commendable incentive. We should, however, increasingly motivate the producers of export items.

Establishment of a Kampala Stock Exchange

If the private sector is to make a respectable impact on economic activity in the foreseeable future, it will be necessary to establish effective capital and money markets that will permit private firms to mobilise investment finance other than from our own resources. Thorough studies should be made to permit the establishment of a Stock Exchange in Kampala and everything possible should be done to ensure effective participation in its operations. I am glad to note in this regard that at a recently organised symposium in this very Conference Centre, the idea of establishing the Stock Exchange was endorsed, and a committee of experts was *set up to study* the Rules, Regulation, and By-Laws of the proposed Kampala Stock Exchange.

Endorsement of Government Policy on Privatisation

In addition to the parastatals which government has decided to put up for divestiture, there are many enterprises in commerce, industry, and agriculture now under Custodian Board but operated by the private sector. A recent USAID-financed study estimates the current value of the Custodian Board properties to be U.S. $1 billion.

The fact that the ownership issue of these properties has not been resolved has inevitably discouraged investment in and development of these properties for nearly 15 years. However, this government is now more fully committed than ever before about the privatisation of these properties.

The decision of government to sell off selected public enterprises to the private sector or to operate them under a joint venture arrangement with the private sector is intended to reduce large government deficits, improve efficiency of the enterprises, and to reduce the management burden on the public sector. As of now, however, no definite procedure has been agreed upon for the implementation of the programme.

Uganda is one of the many Third World countries that has opted to sell off its public enterprises to the private sector. But the implementation of that policy is not always easy. In fact, previous governments which adopted the *same policy totally failed* to implement their decisions. First, extensive studies have to be carried out to determine what enterprises are going to be privatised; to whom they are going to be sold; whether the targeted buyers have adequate resources to buy them; whether the buyers have the ability to manage the enterprises efficiently; and finally, to what extent should foreigners be allowed to participate in the process of privatisation, and if so, under what terms?

In Uganda, government has already decided on which public enterprises to be privatised. Unfortunately, some of these enterprises are so run-down that they will not be very attractive to the private investors. As to whom we are going to sell, our policy is that to the extent possible these enterprises should be sold to Ugandan citizens. The problem with this decision, however, is that very few Ugandans can afford *to purchase* these enterprises at today's market prices. And even those who can afford *the purchase price* will need additional capital to develop or rehabilitate these properties.

One option would be for government to sell these enterprises at subsidised prices. Such a policy would, in my opinion, be mistaken to the extent that it would extend a subsidy even to the very rich who can afford to buy at market price, and thus reduce government revenue. If we are going to subsidise at all, the government should subsidise only those who cannot generally afford to pay the market price. It would be unjust to subsidise everybody, rich and poor alike.

The second option would be to provide credit to prospective Ugandan buyers and developers of these enterprises at reasonable terms. This option would, in my opinion, be the most viable option, particularly if donor institutions willing to support our privatisation policy could extend to us grants *or* soft loans for the purpose. But as Robert Poole points out, "One of the major barriers to privatisation is lack of financing by international lending agencies and international Banks, many of which it seems, would rather collect payments from a government than risk their money on enterpreneurs." (Privatisation and Development, edited by Steve H. Hankle, p. 44).

More recently, however, many donor institutions have changed their policies and are willing to put their money behind serious programmes of privatisation by third world governments. For example, in Uganda USAID has given the government its firm commitment not only to participate in the financing of the purchase of Custodian Board properties but also in the rehabilitation and development of the same by Ugandan entrepreneurs. The World Bank has also extended us technical assistance in the privatisation of public enterprises.

A third option which, in my opinion, is equally viable is to permit Ugandans to purchase and develop these enterprises in joint ventures with foreign counterparts. As I stated earlier, joint ventures would enable us not only to attract foreign investment capital (as opposed to loans), they would at the same time enable us to *gain from the transfer* of technology and managerial know-how. Foreign partners can also assist in the identification of *existing and potential markets for our exports* and in the actual marketing of these exports.

I know that there are those among us who are suspicious of foreign investors. Foreign investors are perceived to have interests and motives designed to exclusively enhance themselves.

But this is not always the case. In today's world, there are many foreign investors who are sophisticated enough to know that you cannot expect to earn a profit if you pursue policies and objectives contrary to those of the host country. Besides, these investors and host countries alike can take advantage of guarantees provided by new institutions such as MICA, which have been established to promote foreign investments in the Third World.

One of the fears about privatisation is that it will not work in the best interests of the poor who constitute the majority. More specifically, it is feared that the poor cannot afford to pay the price that the private suppliers of good and services *need to charge to order to recover their costs and make a profit.* Accordingly, many governments have adopted policies of price control. It is, however, noted that price control has rarely worked in the interest of the poor. The evidence available seems to indicate that the poor, by and large, end up either not getting access to the commodities in question or paying prices that are higher than market prices.

In Uganda, we have decided to adopt a mixed economy approach. Our policy is to promote increased production. Whichever enterprise can produce a given quantity and quality of goods and services at the lowest price—whether private or public—has our support.

We have also decided to pursue a policy of limited subsidies to protect the interests of the very poor in the purchase of selected agricultural inputs, such as hoes, which are mainly used by the poor.

CONCLUSION

In the foregoing sections, it has been demonstrated that over the last two decades, economic performance has been quite unsatisfactory to the extent that by 1986, the economy was close to total collapse. As a result, both the private and public sectors have been operating inefficiently.

Previous governments adopted policies and strategies that exacerbated the above tendency but did little if anything to bring about the desired structural change. Domestic institutions have also not evolved appropriate and innovative schemes and programmes to stimulate domestic economic growth.

I have argued that privatisation as such is not a panacea for all the economic ills facing the country. A solution is to be found in a package of policies and a mixture of strategies. Like many other initiatives, privatisation has no established format or procedure that can be followed for *all* countries. Uganda must, therefore, base its privatisation strategy on its own peculiar national circumstances.

I have also argued that in a bid to streamline and facilitate the establishment of new enterprises, we need to set up a Trade Promotion and Investment Centre.

I have also stressed the need to review and revise our Foreign Investment Legislation so as to make its provisions more specific, clear, and attractive to foreign investors. The law should also protect our national interests. Finally, I have stressed the need to expedite the establishment of a Kampala Stock Exchange.

Before ending, I would like to state my strong belief that a self-sustaining economy should *not* base its survival on the success of a particular government. It is partly for this reason that economic power should, in my opinion, be separated from state power and handed back to the people.

In this regard, Uganda is, in my opinion, extremely fortunate to have committed leadership. President Museveni and his NRM government have had remarkable success in restoring peace and security in this country, without which we would not be talking about private sector development of any sort. The President has consistently pursued correct policies designed to increase production and efficiency in the management of our affairs. He has categorically stated that his brand of politics *is* economics, and to this end, he has clearly come out in support of the private sector.

The challenge of our times is for the private sector to regain its confidence in its ability to make major contributions to this country's economic recovery. I appeal to you all, my fellow citizens, to take advantage of the new opportunities now available and to work hard to ensure that this country will grow from strength to strength in the years ahead.

Thank you very much.

MODULE I

WHY PRIVATISE?

Victor Pratt

Hon. Eria Kategaya

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Rationale for Privatisation in Sub-Saharan Africa

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ABSTRACT

I believe it was Sir Winston Churchill who said: "Some see the private sector as a tiger to be shot. Some see it as a cow to be milked. Others see it as a working horse."

Those African governments that have been shooting at the private sector by such methods as the nationalisation of large companies and legislation aimed at tight control of business activities, have come to learn—with some degree of remorse—that they had been trying to shoot down their own economies. Some African governments, in an attempt to milk the private sector more thoroughly, have been imposing extortionary taxes on private business while providing them with little infrastructural and social services. This has led to capital flight as multinational corporations have been forced to emigrate to countries with more "reasonable" taxation and more hospitable business environments. Neither have the local investors taken the "milking" lying down. They have invented ingenious tax avoidance schemes while others have diverted their monies to foreign bank accounts where the interest payments provide a better return, despite any nationalistic leanings that may have prevailed.

I hold the view that the private sector is the working horse: it is the productive sector of the economy. As any farmer or jockey knows, a healthy robust horse always does a better job than a sickly one. But for the horse to be productive, it must be well-nourished and looked after in addition to being trained. For faster and sustained economic growth to take place, the private sector in Africa must be given an enabling environment that can facilitate the creation of wealth. And this must begin by the recognition that public sector enterprises have not shown the efficiency and productivity that private sector enterprises have demonstrated throughout the world, and especially in Sub-Saharan Africa.

BACKGROUND

When most of Africa became independent some 25 years ago, the nascent governments found themselves with no pool of entrepreneurs or managers that could run modern businesses, especially in the manufacturing sector which is the lynchpin of industrialisation. Yet the emergent countries wanted to industrialise and be in a position to run all manner of large businesses on their own. After all, had they not sought independence in order to hasten their people's economic progress by putting the means of production, including the big manufacturing enterprises, in the hands of their own nationals?

Given the low literacy levels, virtually all the educated people who could be expected to handle modern business were working in the civil service. Apart from the fact that their services were still needed in government offices, they had no capital with which they could start the kind of enterprises the political visionaries and the planners had in mind. A strategy was, therefore, worked out which "solved" the problem by setting up the desired enterprises using government equity and tapping on the educated civil servants for management positions or services.

Given the constraints and the experiences of the time, parastatals might have been the only way out. However, for the short period that Sub-Saharan Africa has been independent, there seems to be an overwhelming number of parastatal failures to cast doubt on the wisdom of investment by the state in the productive sector of the economy. The dismal performance of parastatals, the disappointing experiences of the nationalised transnational corporations, the mounting unemployment levels, and the soaring public and foreign debts have sobered up most African governments into the re-thinking of their economic policies. And given that most of Sub-Saharan Africa has witnessed a proliferation of state corporations since independence, public investments are now inevitably under the microscope.

PARASTATALS: EXPERIENCES AND LESSONS

Soon after independence, parastatals were generally established for economic and strategic reasons. They were intended to boost economic production in areas where indigenous private enterprises were not expected to be forthcoming either because the managerial skills required were not available and/or the capital outlays were beyond the financial clout of local businessmen. Parastatals were also set up for strategic reasons such as the maintaining of necessary food reserves or in the extraction, processing, and marketing of the country's major mineral or cash crop. The reasons for establishing the parastatals seemed well-justified.

However, the running of these state enterprises has left a lot to be desired. The staffing and management of the parastatals has often gone on as if the majority of the governments had become oblivious of their initial objectives for setting them up in the first place. The economic objectives have often been completely ignored for political and social considerations. Core executives have often been appointed because they had political godfathers or relatives in senior government positions with little regard for their academic and professional abilities.

A quote from a top official of the African Airlines Association (AFRAA) during the association's 20th anniversary in 1988 candidly illustrates this point:

> "The fact that most airlines are state-owned is a great drawback to their economic success. The interference from their governments has been a tragedy. The politically appointed airline executives often have little knowledge of airline operation or any form of business management at all. Often such executives' loyalty is to their godfathers in government rather than to efficiency and profit generation. The top executives of most African airlines, apart from being ill-at-ease on their jobs and generally a dampener to the efficient running of the airlines, are often removed from office too soon before they can really get to know what they are supposed to do."

Needless to say, the removed executives are often replaced with new political favourites who are as unfit in the business as those being kicked out were when they joined the same airlines.

I know African countries are proud of their national airlines—the flag carriers. But unless they undertake thorough management overhauls, or sell to local business magnates, these national flag carriers will most likely be unable to stand on their own financially. They will either collapse or continue to rely on heavy subsidies to keep them afloat from year to year.

Yet airlines have been generally in the group of the better managed state corporations because of the competition from other international carriers. Some of the reports on the management of parastatals paint a picture of utter chaos—embezzlement of funds, erratic reporting to duty, misuse of vehicles and other facilities. And when the failures of the chief executives have become too glaring to ignore, they have usually been transferred to other parastatals to continue with their blunders. If Sub-Saharan Africa is serious in its quest for raising productivity and hastening economic development, then something has to be done and done soon enough before we pass a point of no return to a state of self-perpetuating underdevelopment.

However, many Sub-Saharan Africa governments have even created parastatals for purely political reasons such as the creation of jobs for political allies rejected by the electorate or for extending the political power of a favoured Minister, among other non-economic reasons. This has led to a bloated public sector, mainly comprised of loss-making state corporations.

The support of a large and inefficient public sector by the proportionately diminishing private (productive) sector has created perennial deficit problems for most Sub-Saharan countries.

The consequent government borrowing to finance recurrent expenditure has led to a clouding out effect as the central government takes up funds that could have been borrowed by private investors, and thus undermined the growth of the productive sector.

Financing of development projects has increasingly relied on foreign borrowing as the constrained productive sector is increasingly becoming less able to provide the Exchequer with adequate revenue from taxes. This reliance on foreign borrowing has now created an insurmountable debt burden for most of the Sub-Saharan African countries. Many of them are now spending over 30 percent of their entire export earnings on the servicing of foreign debt. Thirty percent is taken as the sustainable upper limit. But a number of Sub-Saharan countries are already spending more than 100 percent of their total export earnings in servicing foreign debt! It is not a situation that can be sustained for long. Some of the countries are even taking fresh loans to repay the ones that have matured.

In 1987, foreign debt servicing was siphoning off from Africa more than new capital inflows to the continent. The International Monetary Fund (IMF), for example, was the recipient of a net outflow of almost U.S. $1 billion during the year. The situation is not much different today with the depressed commodity prices and the declining Official Development Assistance. In fact, Sub-Saharan African countries are particularly ard-pressed. Their real growth of 2.2 percent in 1987 reflected a decline in per capita terms; and for the 17 "debt-distressed" nations in the region, annual debt servicing requirements will triple from $2.3 billion in 1985 to $6.9 billion during 1988-1990 according to a report by the Secretary-General on the United Nations Special Session on Africa's economic crisis, which took place in New York in October 1986.

A way out of Africa's current economic impasse is certainly pertinent. Requesting the international donor community to pump more aid into Africa, though justified considering Africa's declining terms of trade and on pure humanitarian grounds, must be seen as a stop-gap measure. The long-run solution must be the revamping of the continent's productive sector.

GETTING TO GRIPS WITH AFRICA'S DEVELOPMENT OPTIONS

The economic hardships in Africa, whether resulting from plain poverty, hunger, rapid population growth, or declining commodity prices, have been compounded by civil disorders, military take-overs, and general economic mismanagement. Paradoxically, some military take-overs have been prompted by too large public sectors—which promised to deliver all sorts of goodies through parastatals but miserably failed—creating an impression that the civilian government was not forceful enough to get the public enterprises working or those in power were diverting the expected goodies into their own pockets. Unfortunately, or fortunately for democracy, the military governments have generally succeeded only in making a bad situation worse.

Faced with the soaring debt burden and their stagnated economies, African leaders are being forced to re-examine whether the cash-strapped public sector or private enterprise can best provide needed goods and services for their people and act as an engine for economic recovery. Examples abound in several African countries where highly profitable private firms have been acquired by the state only to turn into loss-making entities almost immediately. Yet when the same firms have been returned to the private sector, profitability has been restored in most of the cases within a year. Similarly, examples abound of private firms in the same industry with parastatals making handsome profits while the public corporation is making marginal profits or outright losses.

It is therefore not difficult to see why privatisation—the transfer of public sector activities to the private sector—is increasingly being given consideration in Africa. Yet Africa is a relative newcomer to the issue of privatisation. In other parts of the world, especially in the United Kingdom and France, major programmes of asset sales to the private sector have already been undertaken. It is not only in Africa where parastatals are inefficient. The whole world is awakening to the fact that productive enterprises are best left to the less bureaucratic profit-propelled private sector.

Even the centrally-planned economies of the much advanced Soviet Union and China are giving some degree of autonomy to private enterprise with some measure of privatisation.

The public sector in most of Sub-Saharan countries is partly bloated because of the excessive duplication of functions, with as many as 20 parastatals in some countries providing a similar product. Thus the first step in injecting efficiency into the Sub-Saharan economies is the streamlining of the public sector. Functions should be clearly defined and avoidable duplication eliminated. This should see some parastatals merging and others being wound up because they are superfluous.

Next, those parastatals that are likely to perform better in the private sector should be under a privatisation programme. Most of the trading and manufacturing parastatals should make good candidates for privatisation. Poor candidates for privatisation may include natural monopolies such as railways, posts, and telecommunications and electricity. However, some of these have been successfully privatised elsewhere. Public services and facilities such as the army, the police, and the roads are, of course, best left in the public sector.

To a very large measure, government in Sub-Saharan Africa should see its role as facilitator of productive enterprise rather than the producer. Governments should endeavour to provide a policy environment that encourages efficiency in the productive sector. In many African countries, the policy and legal environments do not foster entrepreneurship or business confidence.

It is important to recognise that the private and public sectors are partners in development. Avenues for honest dialogue between the sectors should therefore be established. Cooperation and consultation between the Japanese public and private sectors have demonstrated to the rest of the world how this partnership could be optimised.

WHY PRIVATE ENTERPRISE IS USUALLY MORE EFFICIENT

A private firm may be defined as one whose output and prices are guided by the product market and whose costs are governed by the capital market. A private firm's life-line is its profits. Unlike parastatals that may be bailed out by subsidies and other forms of assistance from the government, unprofitable firms will go bankrupt or be taken over. The market therefore regulates private sector firms, providing the incentive for them to achieve both productive and allocative efficiency.

Further investment in a certain line of activity is dependent on the expected profitability, usually based on earlier experience. Thus investment takes place in areas where consumers have shown a preference. This therefore, apart from attracting investment funds to the area of their greatest return, maximises consumer welfare by offering more of what is desired.

Besides, the government revenue is dependent on taxation of profit. By creating a bloated public sector with a multitude of loss-making parastatals, the government is cutting the very hand that feeds it. By taxing those firms that have higher profits more, equity is enhanced a lot more than when taxing poorly-salaried workers to pay the high salaries of loss-making parastatal officials. This in itself is tantamount to a misallocation of resources, as, for example, the taxes would have been better utilised in the expansion of health facilities to promote the productivity of the productive labour force.

The greater efficiency in the private sector is a strong ground for privatisation in Sub-Saharan Africa. It will cut down on budget deficits, undue clouding out effects, and the now unsustainable debt burden facing most countries in the region.

TOWARD A DEVELOPMENT-ORIENTED PRIVATISATION

Enterprises will not necessarily experience higher profits and lead to faster economic growth by mere privatisation. Most public enterprises are not subject to national or international competition. Many benefit from statutory protection of their monopoly status or some other regulatory barrier to entry by competitors. Privatisation of such enterprises will not succeed in making them more efficient unless it is accompanied by economic and trade liberalisation so that market forces are allowed to influence enterprise behaviour.

On the other hand, as a partner in development, the government must seek to create an enabling environment for the prosperity of enterprise by appropriate incentives and conducive legislation. Not much can be expected out of a privatised enterprise if the legal framework is hostile against the nature of its operations unless it is a parastatal, or if the laws are immediately changed because the government finds out later that the new owners are not its buddies.

It was worth noting that as at independence, most of Sub-Saharan Africa has not encouraged entrepreneurs to finance certain types of industries nor provided them the technological expertise to run them. The situation is, of course, a lot better in most of the countries. But Sub-Saharan Africa remains cash-strapped, especially in regard to the foreign exchange outlays for the acquisition of equipment and machinery from other parts of the world. Indigenisation of the economy should remain a central objective of African governments. But this should not blind African nations of the immense benefits that can be derived through joint ventures with more industrialised nations, especially in finance and technology transfer. The need to promote joint ventures in the spirit of true partnership between Africa and the rest of the world should be recognised. It is through joint ventures that African entrepreneurs will have a chance to share in the work, risk, profit, and responsibility that goes with big business. It is through such experiences that Africa will come to create its own multinational corporations.

Encouraging foreign direct investment, through joint ventures and other avenues, will channel more capital (which is badly needed) to the continent, which will boost the economic recovery programmes of the countries in the region. In the long run, it may be the surest way of precluding the need for aid to Africa. With a dynamic private sector, the governments in the region are most likely to tap enough revenue from the many profit-generating firms. And with a streamlined public sector free of tax-guzzling parastatals, the issues of large deficits and the need for external budgetary support schemes would have been pushed into the annals of history.

SOME BOTTLENECKS TO PRIVATISATION

Even in countries where privatisation will have been fully accepted, many Sub-Saharan countries might find the process painfully slow. There could be many reasons to this, but the following will be applicable in most of the countries in the region:

Loss-making Parastatals

A good number of loss-making parastatals will be unattractive to private investors unless they can foresee how to turn them into profitability. The governments might find it necessary to create incentive schemes—such as tax holidays and other forms of preferential treatment—for a number of years from the date of purchase of certain state corporations. Governments also should be ready to discuss in detail the proposals of prospective buyers in an attempt to maximise their viability.

Lack of Capital Markets

The near absence or total lack of capital markets in most of Sub-Saharan Africa means that state corporations will generally be sold through private placements. This will tend to make it difficult to find buyers with adequate capital. Private placings also have the drawback of passing the state assets to the already rich, thus going against equity considerations. Public placings, on the other hand, enable the rich and the poor to acquire a stake in the enterprise on sale according to their ability, subject to a stipulated maximum.

It will thus greatly help the privatisation process if those countries which are already in the process of establishing capital markets hasten the process. For those that still have a long way before they can set up capital markets, the government can work out schemes which ensure that the shares of the privatised enterprises are as widely distributed as possible.

Social Costs

Privatisation is not without social costs. A number of workers are most likely to lose their jobs, given that parastatals generally have more personnel than they need for efficient operation. There may also be cut-backs in the supply of certain services as the enterprise changes hands and probably undergoes a few months of restructuring before reverting into full production. Programmes for redundancy and training should be worked out for the laid-off employees, while alternative ways for supplying some of the essential services in the meantime should be put in place.

Reluctance of Central Government (or Parent Ministries) to Lose Power

Parastatals are a source of power for the government. If a proper system of divestiture is not worked out, privatisation could be a source of political wranglings. Ad hoc privatisation schemes should be avoided as they could be interpreted as moves to undermine certain ministries or ministers.

OTHER FORMS OF PRIVATISATION

Other forms of privatisation, other than the outright sale of state assets to the private sector, should be explored. In some parts of the world, it has, for example, been found that contracting out of activities previously handled within the government may provoke less opposition than the sale of assets and yield equal or greater returns. The management of state corporations could be contracted to local or foreign firms and reviewed periodically to ascertain whether the expected gains are being attained.

A number of U.S. states have, for example, found out that contracting the collection of city garbage to private firms is more efficient and cheaper than when carried out by the local government personnel.

Another way in which the burden on the public sector could be reduced is through cost-sharing programmes, already being implemented by a number of African countries.

Cautionary Note on Privatisation

Selling of state assets to favoured groups runs counter to the efficiency objective and must be avoided if privatisation is to lead to greater social benefits. Giving undue protection, subsidies, or special access to capital markets of a privatised enterprise could reduce or even reverse the net benefits of putting it in private hands. Liberalisation should be a necessary component of privatisation.

Conclusion

A significant number of developing countries have come to rely much more on private enterprise as the engine of growth over the past few years. The disappointing performance of public enterprises in Sub-Saharan Africa suggests that the countries of the region should seriously consider privatisation as a means of promoting efficiency and growth.

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Moderator—**Mrs. Mary Chenery-Hesse**
UNDP Resident Representative
Panelists—**John Kanakulya**
Chairman
Uganda Development Corporation
Henry Kayondo
Chairman, UNCC
Charles Twyman
Deloitte Haskins & Sells
Malcolm Novins
Consultant

Privatisation—Social and Political Implications in Uganda

Hon. Eria Kategaya
1st Deputy Prime Minister

OPENING REMARKS

The issue of privatisation should not be looked at purely from ideological grounds. After all, African countries that have embraced private enterprise and those that have preferred public enterprise have remained equally poor. Irrespective of predominant economic philosophies, most Africans remain subjected to heavy external debts, a dependency structure, and generally low levels of living standards.

The key problems in our African countries tend to be:

1. Lack of capable cadres of entrepreneurs—who are motivated, conscientious, and who have managerial skills.
2. Lack of sufficient local capital.
3. Lack of indigenous technical skills and equivalent—the personnel to operate and maintain equipment are not there. If these are the problems, will privatisation present a cure for these problems?

The case for public enterprise might lie in the fact that the government has the means and ways to mobilise funds (local and foreign) and train personnel to run the public enterprises. The missing link in this case is lack of commitment and motivation.

This has resulted in people in public places "privatising" such enterprises by running them as if they were personal businesses.

Clearly, the state should confine itself to key and strategic areas leaving the bulk of economic activity in the hands of private indigenous entrepreneurs. Foreign participation should be marginatised to areas where it is strictly necessary and beneficial. The creation of serious national capitalists is of paramount significance.

National capitalists with national economic activities can even help forge national political cohesion.

POLITICAL AND SOCIAL IMPLICATIONS OF PRIVATISATION

1. Surrender of our independence—due to the deficient levels of local capital resources, privatised enterprises could end up in the hands of foreigners. This would no doubt compromise our independence. The hard choice then is between rejecting privatisation or cautiously accepting it along with attendant consequences.

2. Privatisation may not allow for even development of the whole country. Private business aims basically at profit. This may lend to the concentration of business activity in certain lucrative areas of the country.

3. Unemployment may result from privatisation as the privatised concerns streamline employment levels to raise productivity and, therefore, profits. Such people may not be absorbed elsewhere since the economy is not expanding fastenough. We do not even have a welfare system to assist displaced employees. This has negative effects on aggregate demand let alone the misery entailed for the victims.

On the positive side, such an atmosphere can encourage a spirit of discipline and hard work among employees, elements which are generally lacking among Ugandan's working population.

4. Our cultural tendencies can hinder efficiency. The need to employ relatives, political supporters, etc., may not favour the utilisation of the most capable people.

5. Our cultural values, especially the dependency problem and the spirit of generously sharing whatever we have, cannot allow for frugality and thrift, which are necessary for economic success.

CONCLUSION

Private enterprise has several advantages and needs to be encouraged. However, training in business and managerial skills is crucial if the private sector is to live up to its expectations. The question of efficiency, whether in the public or private sectors, is the fundamental issue.

Panelists—The Honorable S. Okurut
Minister of Labor
Joel Kaswarrwa
Executive Director, FUE
Okul-Ongar
Principal Economist
Ministry of Economic Planning

MODULE II

PRIVATISATION METHODS AND STRATEGIES

Charles Twyman

Edward Mungati

Privatisation Methods and Strategies—The Malawi Experience

Charles Twyman
Consultant, Deloitte Haskins & Sells

As a consultant, he gave his experience in the privatisation programme of Malawi and disclosed that a World Bank team of experts will soon come into the country to commence groundwork on the privatisation process.

Advantages of privatisation as perceived by the Malawians include:

- Fostering economic growth.
- Enhancing efficiency.
- Spreading of ownership.
- Developing capital markets, etc.
- Malawi has structural problems, e.g., the transport network which is complicated by upheavals in neighboring Mozambique.
- Privatisation does not necessarily lead to job losses. In the long run, with fuller utilisation of assets, the net employment effect is positive.
- It is sometimes necessary to rationalise and restructure parastatals before privatising them.
- Valuation is a very important issue. It has to be done satisfactorily for successful results.
- The government has set up a policy-making organ at Permanent Secretary level which utilises recommendations of consultants.
- In this case, consultants both recommend and execute decisions.

METHODS OF SALE

These include private placements, competitive bids, etc. In some cases, it is possible to sell at prices higher than the valuation, while some parastatals hardly can go even for a penny.

- It is not impossible to reconcile the interests of owners and the government irrespective of ownership structures. Fear of control of an enterprise after privatisation should not cause fear of privatisation.

The Malawian programme has an inbuilt strategy for capital market development.

CONCLUSION

Privatisation is a process—a complex process, a long process, a dynamic process, a realisable process.

Panelists—James Musinguzi
President
Garuka Properties
Victor Pratt
Malcolm Novins

Valuation Methods in Uganda and Their Political, Legal, and Financial Implications

Edward Mungati
Chairman, Valuation Chapter
Principal Partner, E A Consulting Surveyors and Valuers

I thank the conference organisers, UCB, and the Government for the honour and confidence they have had in our institution and myself to present a paper at this most important conference. This is indeed a welcome method of work by the NRM Government to include many sectors of the community on important matters which affect the economic and political aspects of the country. At the opening ceremony of this conference, his Excellency the President, stated among others, privatisation in Uganda is simply the transfer of public sector enterprises to private entrepreneurs using a scientific approach and not ideological for the sole purpose of achieving maximum results in our economy. The valuation methods used must, therefore, also be scientific and based on rational and free market forces. The issue of valuation at this conference, therefore, mainly concerns those enterprises now owned by the public sector that would be sold to the private entrepreneurs. The private sector is already in contact and utilises valuers to assess the work of their business for the purpose of borrowing funds to improve or expand their enterprises, valuation of assets for books of accounts, or even for outright sale. The question of valuation is simple, common, and well-known to all the participants and my paper will only serve to excite the participants to discuss the topic in full. It will, therefore, be very short and without the usual quotations.

Words commonly used in valuation can be defined from practice as follows:

Valuation is the process of analysing and considering economic factors and parameters pertaining to an asset at a given date to establish its worth mostly in money terms using the most appropriate methods in valuation. This "worth" is commonly called market value.

Asset is a possession such as land, house, etc., or right such as an easement or right to receive an income that can be accorded value and is protected by legal rules regarding its use or disposal.

Market value is the price of an asset that the willing buyer will offer and the willing seller will accept.

Basic methods of privatisation have been listed in the conference guide booklet as:

Public offering of shares—appropriate methods of valuation have to be applied to determine the going concern of the enterprise.

Private sale shares—valuation of a share to determine its value on the open market.

New private investment in an SOE—valuation must be done to determine either the going concern value or the value of the assets of the old enterprise and the value of the proposed one for the private and public to share in a certain ratio.

Sale of government SOE assets—valuation of the assets either as functional, book value, or open market must be established.

Reorganisation (or break-up) into component parts—valuation of assets for each component must be established either as functional to that component, book value, or open market value.

Management/employee buy-out—valuation of the enterprise either as a going concern, open market value of assets, or book value of the assets has to be established.

Lease and management contract—valuation to determine the rent or hire charges on the basis of the value of the enterprise either on going concern value or open market value or book value of the assets.

METHODS OF VALUATION

From the above we can clearly see that although there are several methods of valuation depending on the type of asset and the purpose for which you require the valuation, for purposes of privatisation we shall limit ourselves to the most appropriate as indicated in the previous paragraph.

Going Concern Valuation Method—which involves the determination of the value of an enterprise according to its profitability on the average profit made as shown in the books of accounts for a number of years using the same skill in management.

Some of the advantages of this method include:

- An assurance that under similar economic circumstances same level of profits will be maintained.
- Facilitates easy valuation of shares.
- Valuation easily is understood by the investors, etc.

Some of the disadvantages and problems in using the above method:

- There are no regularly written books of accounts.
- The books of accounts might not reflect the true picture of the business.
- Weaknesses and inefficiency in management will unnecessarily affect the profits of the enterprise.
- Poor maintenance of capital equipment under rated capacity could unnecessarily affect the profits of the enterprise.

Asset Valuation Method—this involves the determination of the value of an enterprise by looking at the value of each asset installed and functional on the open market or by looking at its depreciated book value.

The advantages include:

- It is the simplest way of valuation.
- The values could be computed by not only valuers but also accountants.

The disadvantages of this method include:

- Hyperinflation especially on assets requiring foreign exchange could reflect higher value than its functional assessment.

- Poor maintenance could reduce the rated installed capacity of the asset, etc.

- Cost values of assets might not be readily available.

Direct Comparison Method—the determination of the value of an enterprise by comparing it with adjusted most recent sales of similar enterprise.

The advantages of this method are:

- It is the most accurate.

- It is simple and easy to understand.

The disadvantages of this method especially in Uganda are:

- There are very few sales of property between individuals and almost none between individuals and parastatal companies.

- The high inflation, let alone the removing of two or more zeros from our currency from time to time, makes comparison almost impossible.

- The pressure from I.M.F. changing the dollar equivalent a number of times in a year makes valuation almost ridiculous.

However, for peculiar difficulties in Uganda, especially lack of data and high inflation, it would appear that the "going concern" and "asset valuation" methods might be the appropriate ones to adopt.

There are other complications or problems we should also look at that might hinder or slow down the process of privatisation.

LAND TENURE

The Land Reform Decree of 1975 Section (3) automatically converted freeholds and mailo into 99 year leases. This law is still on our statute book. Some enterprises require heavy investments such that you require a longer term of lease to regroup your capital.

- Some enterprises, such as planting mvule trees, require a much longer term for the enterprise to show profits.

- Some leases from the town councils are for only 49 years. This is far too short for most enterprises even for a good permanent building.

- The premia and ground rents charged by the authorities are so high that it discourages development let alone making it too expensive; besides, the authorities do not provide the necessary services such as roads, electricity, water, etc. The same developer has to incur further expenses to provide the services.

- Some of the public enterprises have such short leases that they will not attract any intending entrepreneurs.

- Obtaining a land title is too expensive and takes too long.

In view of the above cases, a review of the land tenure should be made so as to promote privatisation.

A review on some of the major valuation exercises that have been undertaken in Uganda and experiences drawn from each of them, especially their legal and financial implications to the country:

1970—The (So Called) Nakivubo Pronouncement—The intention and effect of this pronouncement was the exact opposite of what you are discussing. Call it "publicalisation" or de-privatisation" or "nationalisation." By operation of law, government acquired a 51% share in all enterprises owned by non-citizens, especially coffee factories, cotton ginneries, etc. These were handed over to co-operative unions and societies. The pronouncement also affected oil companies, banks, insurance companies, etc.

There were only two valuers in government who had to complete the valuation exercise of coffee factories and cotton ginneries in a very short time. I completed the exercise within 6 months using the "asset valuation" method plus a reasonable "good will." Records were available because the owners were around. The government set up "valuation boards" to handle the valuation exercise of oil companies, banks, insurance companies, etc. The government valuer was in attendance at each board meeting. The whole valuation exercise was fairly successful. Government did not pay any cash to any of these companies for the 51% share acquired but instead agreed to pay for them annually from dividends due to the government.

In my view this is a useful method of payment and could be studied for adoption by the NRM government to promote privatisation, especially concerning the 22 parastatal companies.

1971-1972—All Non-Ugandans, especially those of Asian origin, were given a mere ninety days notice to prepare themselves and leave the country. Later on, the order affected almost all non-Ugandans. Forms were issued to departing non-Ugandans to declare the value of their assets before they left, otherwise they would lose their claims to all property left behind. These forms were filled in but I am afraid nobody looked at them when it came to valuation in spite of the fact that most of the merchandise had been looted or stolen.

The valuation exercise of stock, equipment, furniture, etc., was done hurriedly by unqualified people including soldiers. The people who were allocated the shops full of stocks were inexperienced, ignorant, and in most cases without any business acumen and in spite of the fact that stock and equipment were free, they totally failed to maintain the businesses.

The exercise was legally a failure and of great financial loss and embarrassment to the government. The effects of it are still felt in our economy up to this day.

The British and Canadian governments put a lot of pressure on Amin's government to compensate the departed Asians who were mainly of British and Canadian citizenship. A committee was formed to carry out a valuation exercise using "asset valuation" method and a cabinet negotiation committee was appointed to handle the issue. The results of this exercise were so secret that I do not know whether the compensation was actually made.

However, the whole exercise was arbitrary and so badly mishandled, especially by administrators and army personnel, that it roused a lot of mistrust in the foreign investment laws of Uganda. The NRM government is now making all the efforts to organise and pay compensation to the departed Asians.

1976—Following the collapse of the East African community in 1976, a massive valuation exercise was carried out on the assets of the community to distribute the assets and liabilities among the governments in the community.

The leader of the valuation team was, I believe, from the World Bank and the method used was "asset valuation," using mainly values in the books of accounts of the community. I attended some of the discussions at Permanent Secretary level in Uganda. In terms of valuations, the exercise was not very fair because there was no proper identification of the properties and schedules of assets were outdated, as they did not include assets recently acquired. However, under that hostile atmosphere it was the best that could be achieved.

The above valuation exercises have given us experiences and problems to learn from and, therefore, future exercises should be more fairly and accurately done. The government should also draw experiences and lessons from these exercises to avoid future mistakes.

In 1987, the NRM accordingly set up a "board of valuers" consisting of prominent and experienced professional valuers to advise the government and undertake the valuation exercise of most of the properties now vested in the departed Asians Property Custodian Board. The exercise had many problems of logistics, methodology, and conflicting interests, most of which, I am happy to report, are being solved. These have hampered and retarded the valuation exercise. These problems include:

- Lack of title documents as the departed Asians did not hand them in when they were going.

- Titles in the Ministry of Lands and Surveys are either destroyed or lost, but they term it as "misplaced." There are no proper records of all the properties vested in the Custodian Board.

- Conflicting interests between the town councils, planning board, Custodian Board, and the government as to what length of lease to offer to intending buyers of the Custodian Board properties. I am afraid to say this problem has not been resolved.

- The valuation exercise being undertaken is a postmortem because circumstances and conditions of the properties to be valued are different from what they were in 1972.

- There is not enough money in circulation for Ugandans to buy the Custodian Board properties. The release of almost 3,000 properties to the market at a go will badly depress the market, and recommended values for sale might eventually appear ridiculous.

- The longer the exercise of sale is delayed, the more decay of the properties.

- In spite of the above misgivings, the exercise is well thought out and handled by valuers with outstanding reputation and experience who are also members of the international professional institutions for purposes of ethics and guidelines in modern valuation practice.

Privatisation of professional practice is almost total and continues to attract even the few still in the public sector. The major problems are lack of equipment and exposure to the international new methods of practice. Privatisation in indigenous and family businesses also is almost total and continues to increase as new ventures and industries are introduced. The only limitations are finances and technical expertise.

The government, through corporations such as U.D.C., should concentrate on research and floating of new ventures, and, when fully set up, selling them to the private sector. The present system of holding on to them should be changed in their objectives.

Ugandans should learn to work hard and build industries and houses instead of waiting for free things in the form of Custodian Board properties.

Other countries like Kenya are doing well but have no Custodian Board properties nor do the 22 companies under U.D.C. In fact, many Ugandans think that the purpose of this conference is solely to sell the Custodian Board properties. This should not be the case.

The conference, in my view, should instill a spirit of hard work and sacrifice in the minds of Ugandans to avoid self-destruction in wars and sectarian tendencies.

The general public, including the Ugandan participants in this conference, has contributed to the mess in the Custodian Board. You would rather pay a rent of SHS 100,000/= per month for Mr. Kasaija's flat on Kampala Road but not even SHS 20,000/= for a similar flat next door that belongs to the Custodian Board. Perhaps some of you want immediate sale of Custodian Board properties because you think they will cost "chicken feed" or because you know so and so in the Custodian Board or Ministry of Finance, you will be favoured in one way or another, to acquire these properties cheaply.

My fellow Ugandan, let us not promote privatisation in Uganda through corruption, dishonesty, bribes, threats, nepotism, etc., but through working for God and our country.

Panelists—**Peter Ocran**
UNDP advisor—
Uganda Commercial Bank
George Mugerwa
Commissioner for Taxation and Industrial Promotion
James Senabulya
Political advisor—
Prime Minister
Sam Owori
Executive General Manager
Uganda Commercial Bank

MODULE III

FINANCING METHODS

Bene M'Poko

Sam Owori

I.N. Kariuki

Hon. Richard Kaijuka

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Alternative Approaches to Financing Methods

Bene M'Poko
Managing Director
Trans-Atlantic Consulting Services, Inc.

His paper directs on three aspects:

a. The African scene as seen today.

b. Main constraints to development financing in general and financing privatization in particular.

c. Possible schemes of financing Custodian Board properties.

AFRICAN ECONOMIC SCENE TODAY

The African continent is sinking economically. Since the beginning of the 1970's, economic performance on the continent has continued to decline so much so that of the 36 LDC's as classified by the World Bank, 24 are on the African continent. This has been exacerbated by factors both external and internal.

External Factors include the two oil shocks of 1973/74 and 1979/80 and the World recession of 1981/82 and deteriorating terms of trade for Africa's exports.

Internal Factors include political turmoil, civil strife, economic mismanagement, etc.

There is steady decline in standards of living exacerbated by high rates of growth of population.

The blame of all this must be shared by several parties—governments, the private sector, international institutions, bilateral donors, etc.

In spite of current aid fatigue, Uganda still enjoys international goodwill and this should be exploited.

CONSTRAINTS

The major constraints are institutional. There is a need to develop both the software and hardware necessary for development.

Software

This relates to:

a. Sound economic policies.

b. Viable institutional frameworks.

c. Change of mentality and attitudes.

Hardware

This refers to the necessary physical infrastructure such as roads, schools, etc.

There also is a need to mobilise resources, which can be done through financial institutions.

Our financial structures are dominated by commercial banks and development banks. The former generally deal in short-term lending while the latter are dying out.

How then can we have alternative viable financial vehicles?

There is a need to:

1. Bridge the gap between bankers and our rural or such as through UCB's rural farmers' scheme.

2. Find means of financing small-scale undertakings, normally ignored by both commercial and development banks.

This requires:

1. Setting up of alternative financial institutions such as merchant banks, investment houses, venture capital funds, mutual funds, investment, etc.

2. Innovative bankers who can initiate and execute schemes for resolving these problems.

CUSTODIAN BOARD PROPERTIES

In the case of these properties, the idea is to pass them to people or institutions that can utilise them more fully. There is a need for a credit mechanism to assist in the process of privatising these properties.

There will be three levels of financing:

1. Purchase of the properties.

2. Rehabilitation of the properties.

3. Working capital requirements after divestiture.

Funds for the purpose must come from somewhere, somehow. A study is being made to this effect.

Recommendations

1. There is a need to design the financing mechanisms.

2. There should be a team charged with the responsibility of managing the process—i.e., an institutional framework.

Moderator—Mrs. Mary Chenery-Hesse
Panelists—Victor Pratt
I.N. Kariuki
Chairman
Kenya Stock Exchange
Dr. E. Seruma
Bank of Uganda

Credit Support for Privatization

Sam Owori
Executive General Manager (Credit), UCB

Credit is scarce. The banks have to satisfy the needs of both savers and borrowers. With regard to lending, if adventure is the life of commerce, then caution/timidity is the life of a banker. A banker, after all, lends other people's money.

DEMAND AND SUPPLY FOR CREDIT

The demand for credit overwhelms supply by far. Available credit figures do not tell us anything about rejected applications. There are people who do not even bother to apply for several reasons although they have genuine needs for credit. The need/demand for credit also fluctuates from time to time.

Credit support for the private sector may not have been sufficient as most credit resources are devoted to crop finance and government parastatal bodies. Yet private processors, for instance, have outperformed co-operative unions. There is probably the need to allow such unions or parastatals to die.
Banks are permanently unpopular because they distribute a very scarce but also very crucial resource—money. Our savings rate is very low. Total bank deposits of about Shs. 21 billion yield a per capita savings of Shs. 1,316/=, which is a very poor performance indeed. Fifty percent of the money supply is in circulation—in private hands. Africans' savings are the most liquid and, therefore, the most unproductive. Even the deposits in banks show an unsatisfactory structure. About 80 percent are demand deposits and 10 percent each for savings and time deposits.

DISTORTIONS IN THE DEMAND FOR RESUPPLY OF CREDIT

Speculation—Predictable government policy on producer prices has encouraged borrowers of crop finance to stockpile their purchases in certain periods in anticipation of windfall gains. This ties up considerable funds.

Inflation—Promoters of medium- and long-term projects continue revising upward their credit requirements as prices go on increasing over time.

TIME LAG IN RECEIPT OF EXPORT PROCEEDS

This particularly relates to coffee. A lot of funds are thereby tied up. In the recent past, this has been compounded by barter trade deals.

DISTRIBUTION OF MERCHANDISE

In the past, insufficient business outlets caused a lot of funds to be tied up in such institutions as General Merchandise, Foods & Beverages, and Mukwano Soap factory.

CROP FINANCE

The need to provide crop finance and the underlying political/social implications limits amount available for alternative uses.

BARTER TRADE

This phenomenon has ushered in fresh complications in the demand for credit. The farmer, trader, and marketing boards all need funds to purchase and stockpile produce for barter trade deals.

ADMINISTERED EXTERNAL FUNDS AND OGL

IDA, EEC, USAID, and such available funds increase demand for local cover. The OGL arrangement is supposed to release U.S. $6 million per month. This requires local cover to the tune of Shs. 1.2 billion. Imports take, on the average, 9 months to arrive. That means tying up about Shs. 10.8 billion in OGL alone! This is about 50 percent of the entire total deposits in the banking system!

INTEREST RATE STRUCTURE

Due to our levels of inflation, we have negative real rates of interest. A few borrowers know this and try to exploit it.

TYPES OF FINANCING

Financing in the privatization process is required for 1) acquisition, 2) rehabilitation, and 3) working/operating capital.

MEDIUM-/LONG-TERM FINANCING

The first two items require medium-/long-term financing. Commercial banks cannot afford to lend on medium- or long-term basis since the attendant mismatch in bank assets and liabilities can be financially disastrous.

Our financial structure is extremely weak on institutional sources of term credit—and this is a serious weakness.

The resources from the Uganda Development Bank and the East African Development Bank are but a drop in the ocean.

Japan, for instance, established specialized banks or financial institutions to solve a similar problem. The bank of Japan also issued debentures 10–15 times share capital (paid up) against government guarantees.

We need such renovative scheme to solve the problem.

SHORT-TERM FINANCING

Apart from trade credit and commercial bank facilities, there are hardly other components of the money market. Leasing or factoring services are not available. The gap between expectations and available means to meet them continues to widen.

OTHER PLAYERS

What financiers may contribute is only part of the story.

Government and Central Bank—should ensure availability of foreign exchange for importation of spares and other inputs.

- There should be a conducive climate for production, commerce, and trade.
- Government should have clear, convenient, and predictable policies towards the business sector.
- Losses through such aspects as currency changes, conversion, and tax abuse of financial instruments have eroded confidence in the banks, yet banks are mere implementors of policy.

Moderator—S. Kiggundu
Governor
Bank of Uganda

Financial Markets—Financial Instruments and Privatisation

I. N. Kariuki
Chairman, Kenya Stock Exchange

Capital markets are really not ideological issues but relate to the mobilisation of savings for investment.

Advantage of capital markets include:

- Providing a medium for increasing savings mobilisation.
- Providing financial resources for limited liability companies.
- Enhancing general economic growth by spreading ownership and profit sharing.
- Unimprovement of capital resources allocation.
- Providing a channel for local equity participation in transnational corporations and large local concerns.
- The prerequisites for the flourishing of capital markets include general economic policies and institutional regulatory control. A stock exchange for Uganda like the Nairobi stock exchange would have to be a simple one for a start.

Participation on the Nairobi stock exchange has been a lot and the problem right now is excessive demand. As a result, a "Capital Market Development Authority" has been set up to look into means and ways of boosting the activity on the stock exchange.

Mr. Kariuki elaborated on the nature of financial markets. There are mainly three:

1. Capital markets—where long-term financing can be obtained. Examples include development banks, insurance companies, building societies, etc.

2. Money markets—where demand and supply for short-term credit meet.

3. Securities market—the stock exchange, where buyers and sellers meet to exchange new and old securities.

Functions of the stock exchange include:

1. Enabling the public and private sectors to raise capital for expansion and development.

2. The secondary market allows for changes of ownership in an enterprise without affecting operation of the enterprise.

3. Provision of a medium for broad participation in ownership in local and even multinational enterprises.

FINANCIAL INSTRUMENTS

A variety of these must exist to have vibrant financial markets. In the developing countries this has been hampered by:

1. Willingness of banks to provide unsecured credit by refusing instruments drawn on them.

2. Absence of discounting houses.

3. Absence of secondary markets, which renders existing instruments illiquid.

4. Absence of a variety of financial institutions.

5. Unrealistic interest rates sometimes due to inflationary foresumes.

All these issues need to be addressed by relevant parties.

PREREQUISITES FOR A VIBRANT SECURITIES MARKET

1. Confidence and accountability.

2. Ample volume of securities.

3. Interested buyers.

4. A trading mechanism—in the case of Uganda we could adopt a three-step mechanism, i.e., (a) using company, (b) broker, (c) buyer/investor. This excludes dealers and undernoviters as is the case in developed countries.

5. A regulatory framework to control operations and operators.

6. Political stability and a healthy economic environment.

7. Positive government attitude, including a favourable economic environment and conducive monetary and fiscal policies.

8. Training and technical assistance from those that have more experience than us.

INCENTIVES FOR ENCOURAGING SUPPLY AND DEMAND OF SECURITIES

1. Review of the taxation system to lower the cost of raising funds on the capital markets.

2. The return on investment (ROI) on the securities should favourably compare with return on other investments.

3. Issue of government securities to patronise the market.

4. Policy on foreign investment should be clear and explicit.

5. Availability of credit financing to enable participation of local investors.

6. Fostering confidence in the market by demystifying it.

7. Compulsory public offering such as for all foreign companies or registered limited liability companies. This, for instance, has been done in Nigeria.

PRIVATISATION AND CAPITAL MARKETS

Capital markets can facilitate privatisation but are not a necessary prerequisite. However, the absence of securities markets has a number of implications:

a. Lack of a profit pricing mechanism.

b. Absence of secondary market renders securities illiquid and, therefore, unattractive.

c. Securities sold outside the market cannot be used as collateral in financial institutions.

d. Fraud by directors or management is likely to occur where companies survive the scrutiny subjected to those listed on a stock exchange.

e. The securities markets provide a convenient distribution mechanism.

Concluding Remarks

A stock exchange is long overdue and those who want to promote it should start now. Government ought to provide incentives but the private sector should take the initiative.

Other Contributions

Debt equity swaps provide another form of providing finance to reactivate idle concerns or those producing at very low levels of capacity utilisations.

Moderator— Mrs. Mary Chenery-Hesse
Panelists—Bene L. M'Poko
Victor Pratt
Dr. E. Seruma

Alternative Approaches to Development Financing

Hon. Richard Kaijuka
Minister of Energy

The paper concentrated on the Ugandan experience. The paper considered:

a. The definition of development financing.

b. The history and impact of development financing in Uganda.

c. Types and sources of development financing.

d. The limitations and performance of development financing.

e. New approaches to development financing.

DEFINITION

Development financing covers various aspects but is mainly concerned with mobilisation of financial resources for investment in various sectors.

HISTORY

The track record of development financing is not very impressive due to several reasons including poor management, civil strife, misguided policies, and political upheavals.

- There also has been overconcentration of funds in the nonproductive sector.
- Uganda Commercial Bank has done a commendable job through the Rural Farmers' Scheme and the Development Finance Division.
- The Development Finance Division at the Central Bank has not made any significant impact.
- External Development Finance has come in the form of concessionary loans from such bodies as IFC, ADB, IDB, EEC, EIB, OPEC, USAID, and the Kuwaiti Fund.
- Domestically, savings have been mobilised in several financial institutions including commercial banks, insurance companies, building societies, etc.

On the whole, there has been insufficient supply of both financial capital and managerial skills.

LIMITATIONS

These include:

a. Inability to mobilise adequate resources.

b. Lack of professionalism on the part of financial institutions.

c. Forgeries. incompetence, and insensitivity to customers.

d. Lack of exposure and the banking culture in the country order.

e. Political upheaval and the resultant lack of confidence have curtained inflow of foreign funds.

ALTERNATIVE APPROACHES

In the context of the theme of the conference, how can divestiture be financed?

a. Our foreign friends should come to our rescue.

b. A stock exchange should be set up at an alternative medium of channeling savings to investments, although several countries exist in this respect. Ample preparations have to be made.

c. We need technical assistance in terms of managerial and entrepreneurial skills. Our businesses need guidance.

d. We need to shift from a culture of small private concerns run by relatives and friends to that of large public limited liability companies that can survive the death of their promoters. Such companies can easier generate funds for expansion and growth.

e. There is a need to avail concessionary finance.

f. Financial institutions in general and commercial banks in particular should examine all possibilities of availing medium-/long-term financing. Our banks could, for instance, adopt a "Universal Bank" framework as is the case with German Banks.

For all these to be realised, it is necessary to have:

a. Commitment and seriousness of purpose.

b. Appropriate taxation policies.

c. Stable political and security environment.

d. Solution to the management crisis problem.

MODULE IV

THE ROLE OF THE PRIVATE SECTOR

Joyce Mpanga

The Informal Sector and the Role of Women

Joyce Mpanga

THE INFORMAL SECTOR

Uganda is an agricultural country with the agricultural sector dominated by peasants. Output here is in the informal sector. Another component of the informal sector is petty trade—"verandah shops," mobile roadside "trading centres," and restaurants, handcrafts, tailoring, etc. The sector is characterised by:

- Small capital bases—usually less than U.Shs. 30,000/=.
- Most participants are either illiterate or have functional literacy.
- Books of account are not kept and the "business entity" concept is ignored.
- Development in this sector has been hampered by political upheavals.
- Sixty percent of urban employment is provided by this sector.
- The sector cannot raise security and, therefore, hardly qualifies for credit from financial institutions. After all, requisite procedures are too complicated for people in this sector. Yet government collects revenue in large amounts from this sector.

Women and the Informal Sector

Women constitute the bulk of the informal sector because:

1. They lack technical skills.
2. Jobs are scarce relative to demand.
3. Cultural factors favour this tendency.

The sector also is dominated by the youth.

Problems faced by this sector include:

- Lack of suitable business premises and residences.
- Lack of access to credit.
- Harassment by law enforcement officials.
- Lack of or poor representation on such organisations as the Uganda National Chamber of Commerce

Recommendation

- The privatisation process should consider the plight of this informal sector. For instance, their needs should be considered while selling Custodian Board properties.

Women and the Economy

- Women are producers of wealth. They are usually not adequately rewarded.
- In addition to direct economic activity, they nurse the sick and aged, collect water, etc.

They are engaged in several activities, including:

- Garment industry.
- Nontraditional industries as far as women are concerned, e.g., carpentry.
- Utilisation of appropriate technology, e.g., cooking stoves or wooden washing machines.
- Business—entrepreneurship.

Problems of Women

Women are faced with several problems including:

1. Inadequate level of technological information and skills. They utilise rudimentary traditional modes of production.
2. Women lack managerial knowledge and expertise.
3. Women lack proper marketing, marketing research, and distribution of products.

Recommendations

1. Bankers and planners should avail women the necessary capital to run their businesses.
2. Women should be given education as a matter of priority including technological and managerial know-how.
3. In the course of privatisation, the interests of women and the youth should be considered.

Panelists—The Honorable Rebecca Kapaga
Mrs. Mary Chenery-Hesse

REBECCA KAPAGA

- The critical factor as far as women are concerned is managerial know-how.

Women in the private sector include:

- Producers in the agricultural sector—mainly peasants.
- Those in the distribution of goods and services—rather parasitic.
- Those engaged in illicit trade—smuggling, etc.

Recommendations

- Privatisation should be extended to and should affect rural areas where the bulk of peasant women producers live.
- Emphasis should be put on improvement of efficiency in local production—education and managerial skills provision.
- There should be an aggressive approach toward the provision of credit to women.

MARY CHENERY-HESSE

- Uganda is on the forefront of recognising and promoting the role of women in development.
- Women affairs are societal affairs. They should neither be left to women alone nor should they be marginalised. Their interests should be catered for, for the benefit of society as a whole.
- Structural adjustment programmes affect women most. When the going gets tough, women are expected to shoulder the burden—sometimes through the medium of the informal sector.
- Women should not be intimidated but should be given a chance to be heard.

Recommendations

- Training of women is of paramount significance.
- The women should be included in decision making and their views should be heard and taken into account.

General Consensus

After deliberations of the delegates:

- Women should be assisted through training and otherwise to become more efficient.
- Women's interests cannot be taken care of for the sake of it. Means and ways should be devised to enable them to be more competent and competitive.

MODULE V

ATTRACTING FOREIGN INVESTMENT

Hon. Prof. G.W. Kanyeihamba

Provisions and Status of Uganda's Foreign Investment Law

Hon. Prof. G.W. Kanyeihamba
Minister of Justice/Attorney General

Mr. Chairman, distinguished guests, fellow participants, ladies and gentlemen, in the context of development strategies for Sub-Saharan Africa, a Conference such as this one has been long overdue. For the last decade or so, there has been universal disillusionment with the inherited concepts and strategies of development that led to the explosion of the public corporation throughout Sub-Saharan Africa. At the core of this disillusionment are the dismal performances of the public corporations themselves. In the case of Uganda, quite a number of these public corporations, if not the majority, were found by the NRM government to be in their terminal stages of extinction. Even today it is doubtful whether they regularly and collectively contribute to the national coffers. On the contrary, some have been known to depend on financial support from government in order to survive. That they continue to do so despite their dismal record of performance is one of the contradictions of leadership and management that this conference will be addressing. In the past, the debate on the fate of some of these public companies has been, at best, muted, hesitant, and haphasard. There also are some corporations whose existence has been beneficial to the country but which are sometimes misunderstood or deliberately misrepresented. I wish, therefore, to welcome this initiative and to congratulate the conveners of the Conference.

Mr. Chairman, I have been requested to introduce the discussion on the topic "Provisions and Status of Uganda's Foreign Investment Law." Had I been consulted at the preparatory stage, I would have suggested that instead we discuss "Proposals for a Foreign Investment Law for Uganda." The existing two types of legislation do not, in my opinion, go far enough as investment laws. The 1964 Act is entitled "The Foreign Investments (*Protection*) Act." The emphasis in that Act is the protection of existing investments. The existence of foreign investments in the country was taken as a *fait accompli*. However, the fact is that the flow of investments into Uganda is not as smooth as it ought to be. Inadequate as they are, these laws provide a convenient starting point for a discussion of any proposals for reform and innovation. One of the contentious issues discussed at the various conferences for Independence of the three East African territories was the determination of the form of guarantee for the protection of private property. Besides the concern shown by the immigrant communities who occupied superior positions in the economic structure of the region, there were entrepreneurs and local minority interests who expressed the fear that unless the contributions guaranteed of private property, the emerging new governments would nationalise or compulsorily take over property, buildings, and other assets without formality or compensation. As a result, our constitutions, especially those of Kenya and Uganda, adopted constitutional provisions which are similar to the universal declaration of Bill of Rights. Tanganyika, as she then was known, rejected the Bill of Rights as such but instead incorporated a general proposition in her constitution to the effect that the right to property was one of the inalienable rights of the individual. For the other two countries, what was incorporated and remains a cardinal principle of the constitution is that:

> "No property of any description shall be compulsorily taken over and no interest in or right over property of any description shall be compulsorily acquired except where the following conditions are satisfied."

These are then spelled out in the constitution, such as property may only be acquired for a public purpose. The acquisition is only valid if it is made in accordance with the established law and is subject to prompt and adequate compensation. Anyone affected must have unhampered access to the courts, which are free to determine the rights or interests affected and the adequacy of the compensation. The taking of possession can only be justified in the interests of defence, public safety, public order, public morality, public health, town and country planning, or the development or utilisation of any property in such a manner as to promote the public interest.

Thus, the first protection for investments is enshrined in the Constitution of the Republic of Uganda.

The laws governing foreign investments in Uganda are contained in two statutes. The first is The Foreign Investments (Protection) Act of 1964, Chapter 160, Laws of Uganda, which I have just referred to. Under this Act there is The Foreign Investments (Protection) Regulations, contained in Statutory Instrument No. 35 of 1965. Then there is The Foreign Investment Decree of 1977.

The Foreign Investments (Protection) Act sets out to accomplish just one task, namely, to protect both the existing and future foreign investments. The Act lays down the procedure to be followed by the foreigner in order to be accorded protection of his or her investments. Under this procedure, a foreign national who has invested or intends to invest in any sector of the economy may apply to the Minister of Finance for a certificate of an approved enterprise. The application form is provided for in a schedule to the Act by way of Schedule.

The first protection the foreign investor enjoys under this Act is protection against compulsory acquisition. Here it is provided as follows:

> "No approved enterprise, or interest in or right over any property or any undertaking forming part of the enterprise shall be compulsorily taken possession of or acquired, not in accordance with Article 22 of the Constitution."

Section 22 of the 1962 Constitution eventually became Article 13 of the 1967 Constitution.

Under the constitution, compulsory acquisition is only permitted if it is in the public interest. But, even in such cases, there was to be "prompt" and "adequate" compensation. However, in 1970, the Constitution was amended by the deletion of the requirement for "prompt" compensation. The Act provided that in the event of such acquisition, compensation had to be paid within a period not exceeding six months from the date of acquisition. Further provision was made whereby any person not satisfied with an acquisition as provided for in the Constitution and in the Act could apply to the High Court for the determination of:

a. His interest or right;

b. The legality of the taking of possession or acquisition of the property, interest, or right;

c. The amount of compensation to which he is entitled and the *prompt* payment of that compensation.

Provision also was made for an appeal from the decision of the High Court.

The second protection guaranteed to the foreign investor is with respect to the repatriation of funds. Here, it is provided that the holder of a certificate may transfer out of Uganda in approved foreign currency and at the prevailing official rate:

a. The profits after payment of relevant taxes on his investment of foreign assets;

b. The approved proportion of net proceeds of the sale of all or any part of the approved enterprise;

c. The principal and interest of any loans specified in the certificate;

d. Any compensation paid under the provisions of the Act.

From the main provisions of the 1964 Act, it will be clear that the Act was enacted merely to protect the investments of the foreign investor. The only reference to any possible duty the foreign investor might have is only implied by reference to "the payment of relevant taxes." What these taxes are is not specified but it is envisaged that successive Finance Acts would spell them out. In addition, the attraction of new investors, which is a very important subject matter, was not even mentioned. The areas of the economy in which the foreigner could invest were not clearly demarcated. Reference was simply made to "any sector of the national economy." In doing this precisely by the publication of the Rehabilitation, Development, and Investment plans, the NRM Government has gone a long way to rectify the omissions of the past.

The inadequacy of the 1964 Act led in 1977 to the enactment of the Foreign Investments Decree. If the 1964 Act concentrated on the guarantee of protection to foreign investors, the 1977 Decree concentrated on the guaranteeing of incentives and inducements to potential foreign investors. The incentives included the following:

a. Any foreign national intending to invest in Uganda, and for that purpose importing any plant, machinery, or any construction material which is not locally obtainable, was exempt from payment of import duties and sales tax which would otherwise have been payable on such commodities;

b. He or she was also exempted from the payment of Corporation tax, selected income tax items, and withholding tax provided such an exemption did not apply to profits in excess of 50 percent of capital investments or to a profit realised from the sale of any part of the enterprise.

The Decree also provided some innovations. For the first time, the areas of foreign investments participation were specified. Some of these areas were:

a. Crop production (excluding the processing of coffee, cotton, tea, and tobacco);

b. Processing of forest products;

c. Sugar industry;

d. Steel industry;

e. Textile industry;

f. Chemical industry, including fertilisers, pharmaceuticals, and pesticides;

g. Leather industry, including the making of shoes, bags, and cases;

h. Oil milling industry;

i. Mining industry, etc.

The full list is to be found in the Schedule to the Decree. These areas of foreign participation were defined in the Decree as "commodity producing enterprises."

Another innovation introduced by the Decree was the establishment of the Foreign Investment Advisory Council to be composed of seven Permanent Secretaries from relevant Ministries under the Chairmanship of the Secretary to the Treasury. This Committee was to advise the Minister in the exercise of his powers under the Decree.

Finally, the Decree introduced a minimum investment requirement of U.S. $500,000 in order for the foreign investor to benefit under its provisions.

Mr. Chairman, the above are, in brief, the main provisions of the two statutes that presently govern foreign investments in Uganda. The fact that I have been able to summarise the entire two statutes in a few minutes itself tells us something about these laws. They are not sufficiently detailed to cater to every question or anxiety a would-be foreign investor might raise with our experts on investments.

The NRM Government has not been blind to the shortcomings of the two statutes. Early last year, my colleague, the Minister of Finance, set up a technical inter-ministerial committee to study not just the two statutes, but all aspects of foreign investments, and to make policy recommendations to him. I am informed that the committee has already done some substantial work and will soon be submitting its recommendations to my colleague. In that connection, your deliberations on the subject are most timely for us. I have no doubt that when the Minister for Finance takes the opportunity to discuss with me what new laws we should enact for the purpose of attracting and protecting foreign investments, your comments and recommendations will be found most valuable.

Turning now to the problems in general terms, the first major one I find in our two statutes is that while they purport to deal with the same problem, they in fact cater to different matters. One deals with protection, the other with incentives. In my opinion, we should consolidate these statutes into one comprehensive statute, while introducing new measures of further incentives, protection, and modernisation.

Secondly, although the Decree identifies 17 areas for foreign participation, the list is inadequate. For example, no reference is made at all to the important sectors of banking, transport, construction, and service, and yet these must figure significantly in our recovery and investment programmes.

Thirdly, and very importantly, in my opinion, while the protection of investments, especially the exemption from certain duties and taxes, is only available to foreign investors, local investors ought to have some incentives for investment. After all, they do import much of their inputs. Their contributions to our developmental programmes ought to and must be recognised and rewarded. Therefore, the new law also must create new incentives and protection for local investors.

Fourthly, the NRM Government has rightly placed emphasis on the small-scale industries, which have for so long sustained our economy. While the minimum sum of U.S. $500,000 may be reasonable for other industries, small-scale industries do not always require such large sums of foreign currency. The distinction between large-scale and small-scale industries should not be expressible only in terms of the finances invested, but also in the way we tax and protect them.

Fifthly, a foreign investor is given the option to review his capital structure upwards any time the cumulative profits fall short of 50 percent of the invested capital in order to avoid payment of corporation and withholding taxes. In such a situation, the tax exemption whose intention is to act as short-term incentive may become indefinite. This needs to be reviewed.

Mr. Chairman, it is also my opinion that the shortcomings that we have identified in the existing laws are mere symptoms of the policy vacuum that has existed over the last two decades. Looking through the various policy documents of previous administrations, one can only discern a single concern and that concern is contained in the repeated references to the inadequacies of existing laws. However, the concern was never addressed by the adoption of concrete policy. That, Mr. Chairman, is why I attach so much importance to a forum such as this one, in which the policy issues are to be addressed. If we successfully address the question of policy, the preparation of the appropriate laws would be an easy task. What is required as a first step is the formulation of a broad but comprehensive policy addressing the issue of investments generally. Such a policy should be able to spell out the areas, modalities, and procedures of foreign participation in our national economy. It should further be able to outline the incentives offered, as well as the expected duties and obligations of both government and investors. The policy also should include practical guidelines to investors. Serious thought should be given in the policy to the possibility of centralising the procedures involved under one organ with the view to finally establishing an Investment Centre as a long-term goal.

Finally, Mr. Chairman, the true guarantee for foreign investments is not the investment legislation, but stability, law and order, the Rule of Law, respect for humanity and property, and the establishment of confidence among the business communities, both local and foreign, all of which, the NRM government can be justly proud. I have no doubt that in the course of our deliberations, many other incentives for investments will be revealed. I promise that in consultations with my colleagues, the Minister of Finance and of Planning and Economic Development, the Attorney General's Chambers will play a positive role in advising the Government what new law to place before the NRC and the President for enactment.

I thank you.

MODULE VI

CUSTODIAN BOARD PROPERTIES

Matia Kasaija

Prof. Sam Tulya-Muhika

Privatisation of Departed Asians' Properties

Matia Kasaija
Executive Director
Departed Asians' Property Custodian Board

BACKGROUND TO CUSTODIAN BOARD PROPERTIES

In this regard we need to talk about the history of the properties and their significance to the Ugandan economy in particular and the Ugandan society in general.

History

I do not intend to go into details of how Custodian Board came to acquire the properties it administers, for all of us are familiar with the events, but suffice to say they were acquired under the most inhuman circumstances, although seemingly popular among indigenous Ugandans, when Asians were asked to leave the country within 90 days with no preparations whatsoever. These properties had been put up by these Asians over a period of over 70 years and are varied. They range from simple shops built of C.I.S. in remote areas such as Otoboi in Teso District, to big industries like Nile Breweries in Jinja.

The Properties' Significance to the Ugandan Economy

Custodian Board properties cover a wide span of economic activities; we have shops, stores, godowns, motor garages, residences, manufacturing and processing industries, agricultural estates and farms, etc. Custodian Board owns more than 60 percent of Kampala Civic Centre, about 70 percent of Jinja Municipality, and virtually the entire Soroti Town Commercial Area. There is hardly any town or trading centre of any significance in Uganda where the Board is not represented.

Therefore, this shows that the policies followed by any Government in connection with Custodian Board properties have a significant impact on the Ugandan economy. If they are bad, the majority of our people suffer tremendously; and unfortunately since the departure of Asians, this has been and continues, to some extent, to be the case.

THE PAST POLICIES

The Expulsion of Asians, giving them little or no time to prepare to leave the country, gave the impression to most Ugandans that Amin grabbed the properties and took them for free. (This is a mistaken impression, for he compensated some and Uganda is continuing to compensate even now.) So various authorities at various times also have tended to think that these properties can and should be occupied or used for free or on payment of a small/negligible fee. Therefore, subsequent policymakers have tended, in administering the properties, to pursue the following policies:

- I-do-not-care attitude; after all, the properties were acquired for free.
- Use Custodian Board properties to dispense favours to political friends or allies.
- Keep the tenancies temporary.

The results of these policies have been disastrous.

The free-for-all attitude has led to unrealistically low rent such that today a three-bedroom, self-contained flat in the centre of Kampala City goes for about shs. 1,600/= or U.S. $8 per month. In some cases, especially for agricultural estates and coffee processing factories, no rent has ever been assessed and, therefore, no payment of rent ever since. Some of the properties hitherto under the management and control of the Uganda Muslim Supreme Council (U.M.S.C.) also are cases in point.

Custodian Board being used by authorities in power as a centre for dispensing favours to political friends has resulted in many tenancies changing hands with every change in government. This has been made even much easier by lack of tenancy agreements, a practice that leaves the tenant at the mercy of the powers-that-be.

These policies have led tenants to either vandalise the properties or invest little or just nothing in the properties; their aim being to extract the maximum returns at little or no cost before their tenancies are arbitrarily terminated.

The Board, too, has been incapacitated in that because of the low revenue it could not and cannot adequately look after these properties. Besides low revenue, the Board in the past has been manned at all levels by quislings.

Having seriously considered these shortcomings and other relevant Uganda prevailing economic

problems, the National Resistance Movement, even before capturing state power, resolved that in the best interest of the country, Custodian Board properties should and must be either returned to their previous owners or sold off to interested Ugandans.
This now leads us to the Disposal Exercise.

DISPOSAL OF CUSTODIAN BOARD PROPERTIES

The Law

This exercise is governed by the Expropriated Act 1982 and the Regulations subsequent thereto, but the relevant sections for our discussion are:

- SECTION 3

  "Any former owner of property or business vested in the Government under section 1 of this Act, may within ninety days of the commencement of this Act, apply to the Minister in writing, and in such form as may be prescribed, for repossession of the property or business."

- SECTION 4 (1)

  "Where an application made under section 3 of this Act relates to property or business in which the Government wishes to participate, the Minister shall notify the applicant accordingly and invite him to enter into negotiations for that purpose."

- SECTION 4 (2)

  "Where the negotiations under sub-section (1) of this section are successfully concluded, a joint venture company shall be incorporated and the Minister shall issue a certificate transferring the property or business to such company.

- SECTION 4 (3)

  "Where the Minister is satisfied that any property or business affected by the provisions of this Act is being occupied, managed or rehabilitated under a joint venture [text missing, p. 3 original] owner which is in the best interest of Uganda, he may without recourse to sub-sections (2) and (3) of this section, issue a certificate validating the transfer of any property or business made pursuant to such joint venture agreement."

- SECTION 5 (1)

  "On receipt of an application made under section 3 of this Act relating to property or business in which the Government does not wish to participate the Minister shall, subject to the provisions of sub-sections (2) and (3) of this section, after satisfying himself with the merits of the application issue a certificate authorising the former owner to repossess such property or business."

  Sub-section (2) and (3) of this section talk about the previous owner having to agree to take on any incumberances on the property before the Minister issues a certificate of repossession.

- SECTION 8 (1) "Where,

  (a) a former owner of any property or business does not apply for repossession within the period specified under section 3 of this Act, or

  (b) the Minister is not satisfied with the application made under section 3 of this Act, or

  (c) negotiations under sub-section (1) of this Act fail, or

  (d) having been authorised to repossess the property or business under section 5 of this Act, the former owner fails to physically return and reside in Uganda within a period of one hundred and twenty days from the date of such authorisation,

  the Minister may make an order that the property or business be retained by Government, or be sold or disposed of in such manner as may be stipulated in the Regulations made under this Act."

Return to Previous Owners

The procedure under which a property may be returned to a previous owner briefly is as follows:

1. As stated in the law quoted above, applications for repossession were to be made within 90 days after coming into force of the Act. This is now history, but a total of 1,667 applications were received.

2. Verification of the property applied for. This means checking and ensuring that the property exists or at one time existed, that the applicant is the registered owner, and that there are no competing claims of interest, or if there are, these are noted and properly recorded for negotiation with the applicant.

This job is carried out by a Verification Committee composed of the following:

- A Chairman, who is appointed by the Minister;
- The Secretary to the Treasury;
- The Permanent Secretary, Ministry of Lands and Survey;
- The Permanent Secretary, Ministry of Commerce;
- The Permanent Secretary, Ministry of Internal Affairs;
- The Permanent Secretary, Ministry of Foreign Affairs;
- The Solicitor General; and
- Two other persons appointed by the Minister.

So far, 585 out of the 1,667 applications have been verified.

3. Actual negotiations with the applicant for the return of the property either wholly or under joint venture with Government.

This job is done by a Negotiation Committee composed of the following:

- The Hon. Minister of Finance, Chairman;
- The Hon. Minister of Commerce;
- The Hon. Minister of Lands and Survey;
- The Attorney General/Minister of Justice;
- The Hon. Minister of Local Government; and
- Two other persons appointed by the President.

Taking into account various legal, economic, social, and political considerations, the Committee recommends to the Minister of Finance either to refuse to return the property or return and issue a certificate of repossession. This certificate empowers the Land Office to enter on the title deed the repossessor as the registered proprietor.

So far, there are 290 cases which have been negotiated and 170 Repossession Certificates have been issued.

Those properties which have not been applied for by the previous owners for repossession or those the applications of which have been unsuccessful are due for sale to interested Ugandans.

Going back to the law we find that it falls short in many ways but relevant to our discussion is the fact that there is no provision empowering the Minister of Finance to cancel a Certificate of Repossession should the repossessor fail or show no visible signs to rehabilitate the property. This defeats the very purpose of, to use this conference's word, privatising the property.

Sale To Interested Ugandans

In order to fulfill this objective there is the need to put in place three things:

- Working out the preliminary requirements;
- Defining policies; and
- Examining the sources of funding.

Preliminary Requirements

Preliminary requirements involve such things as compiling relevant information about all the properties such as location, leases, incumberances, etc. The past history of Custodian Board does not render this task easy. For example, to date, we have not closed our property register (so not all expropriated properties are known to us), and securing title details from the Land Office is at times impossible.

Under the preliminary requirements, there is valuation also, for it is unbusinesslike to sell a property without first professionally determining its market value.

We are progressing very well in this direction. So far, 225 combined Valuation Certificates have been received by the Board and more are soon to come.

Guiding Policies

Broadly, Government has agreed:

- That the properties will be sold in the following order of priority:
  - — Agricultural estates and farms.
  - — Industrial and any other productive enterprises.
  - — Commercial properties.
  - — Residences.
- Depending on the type of property, the following methodologies of sale will be adopted:
  - — Out-right sale (giving the first option to purchase to the current tenant at the valuation price).
  - — Tendering.
  - — Auctioning.

Funding

There are basically three areas where funding will be necessary:

- Purchasing;
- Rehabilitation/renovation; and
- Maintenance/operation.

As to the source so far identified, I shall leave this to the banking authorities to comment on and enlighten the conference.

EXPECTED RESULTS

On completion of the disposal exercise, we expect the repossessor or new purchaser to have a strong sense of ownership, which should lead to increased incentive and pride to invest in the improvement of the property. This, in turn, should lead to improved and efficient productive use of the property and, on a macro-level, stimulate the economy, which should culminate in improved living standards for our people—all in line with the principal objective of privatisation.

Moderator—**Kafumbe-Mukasa**
Deputy Minister of Finance
Panelists—**Professor Sam Tulya-Muhika**
Makerere University
James Mulwana
Executive Director
Shiptoothbrush Company
Patrick Makumbi
Town Clerk
Kampala City

Privatisation of Custodian Board Properties

Prof. Sam Tulya-Muhika
Makerere University

FIRST PRINCIPLES

The Custodian Board problem is now fundamentally an ownership problem. In terms of actual occupation and/or use (or misuse), most of these properties are in private hands. However, they do not own these properties legally nor is it legally or generally desirable that they necessarily should own them. The problem and solution require analysis at the level of *First Principles* if this problem is to be solved once and for all in an acceptable form for posterity. The inhuman action of Amin (1972) breached three fundamental principles:

- Principles of Ownership (as per the constitution and U.N. Universal Declaration of Human Rights).
- Principles of (Legal) Estate Management.
- Principles of Economic and Commercial Productivity of Property.

CUSTODIAN BOARD

The establishment of the custodian (in 1973) was certainly justified, but was not just. It was established in the wake of an act of gross injustice and given more than it could quite possibly handle, especially within the given imperative. Its performance has been appalling and dismal. It has been the lousiest "Landlord" imaginable. It issued successive letters of allocation to various individuals for the same premises without indicating whether these were Tenancy Agreements (if so, for how long) or sub-leases (if so, for how long). This has led many allocatees to assume that the non-bankable *letter of allocation* symbolises "ownership." Whatever that meant, it meant different things to different individuals. In the absence of legal and constitutional ownership, these properties became constantly exchangeable "starts" of political and other wars. The occupiers, being in effective law, merely glorified squatters with typical squatter symptoms as the properties deteriorate much. Yet these frozen assets make up over 70 percent of the developed properties in the country.

ACTION ON PRINCIPLES

Amin's action was politically popular largely because the minority Asians were the "hated" rich and easily identifiable. However, popular is not necessarily right. This action had the effect of:

- Introducing the politically difficult syndrome of "ownership by animal proximity."
- Freezing all dynamic assets and capital in the economy.
- Total destruction of the socio-economic infrastructure.

The problem has to be tackled from first principles as follows:

- The government should make a formal declaration of the right to property (in the light of this experience and the fact that parts of the 1967 Constitution have been suspended).
- Make a formal condemnatory declaration that casts Amin's action of 1972 in its true light nationally and internationally.
- Declare that ownership of developed land is essentially a leasehold matter (as the land belongs to either the Land Commission or the Urban Authorities).
- Declare that leases continued uninterrupted since 1972.
- Refer all leases to Land Commission or Urban Authorities to administer in the usual fashion, thus de-centralising the task from the Custodian Board or any single (pretender) entity.
- Declare that government will compensate those uncompensated up to now, where applicable.
- Strengthen Land Commission and/or Urban Authorities through capacity building, to enable them to handle the challenge of this "regularisation." (This has a residual pay-off for future management, as well.)

ACTION ON OWNERSHIP

The cardinal rule is that all issues to do with ownership should be handled by the relevant and traditionally legal authority. So, immediately, all expired leases should be taken up by either the Land Commission or Urban Authority. Unexpired leases, to be compensated, should be "sold" to the authority in question by government (since the government undertakes to compensate all lessors). Having done this, government should give regularity guidelines along the following lines on different categories of these properties (my classification):

1. Parastatals (created in the wake of departure of Asians): review for divestiture.
2. Parastatals (created as joint ventures or similar category in the spirit of the 1982 Act or before): review for divestiture or partial divestiture versus floating some shares to the general public.
3. Repossessed properties under the 1982 Act with Certificate of Repossession: regard as returned to the Asian for good, and delete property from Compensation List. (Handle outstanding claims expeditiously.)
4. Properties sold by Asians in 1972 or thereafter, but not transferred because of the 1973 Decree: allow transfer and delete them from Compensation List.
5. Agricultural properties/enterprises: review for floating (Ltd. Co.) or for selling.
6. Industries: review for floating (Ltd. Co.) or for selling.
7. Commercial properties: Urban Authorities or Land Commission to handle sale of leases.
8. Residential properties: Urban Authorities or Land Commission to handle sale of leases.

"SELLING" THE SOLUTION

I do not believe that the multiplicity of "tenants" in various Custodian Board properties want to be landlords. In any case, it is highly undesirable to have an economy where every "tenant" is a "landlord." So the proposed sale by condominiums, versus buy where you are, is highly undesirable as it can lead to unhealthy real estate management for a start:

- It would complicate the urgently needed process of rehabilitation of all properties.
- Envisaged future re-development of these properties.

The greatest fear of most "tenants" of Custodian Board properties is "sudden loss of tenancy" on sale to somebody else (as indeed has been the case with the Custodian Board as a degenerate landlord). Government should build in some safeguards to allay these fears, quite possibly along the following lines:

- Activate the Rent Tribunal.
- Provide for appeal to this Tribunal in cases of ungrounded eviction or similar action.

Government also could encourage formation of limited liability realty companies, e.g., one per small urban centre and several, as appropriate, for Kampala, Jinja, and Mbale. These could receive some preferential consideration for purchase of abandoned properties in these urban areas. "Tenants" would be encouraged to buy some shares in these companies so that they feel somewhat reassured that they are not entirely outsiders. Finally, the exercise would require a lot of work in public relations and information spread area to prepare the public for these actions and changes and to educate them that these measures were a step forward aimed at improving their welfare rather than taking it away.

Moderator—**Kafumbe-Mukasa**
Panelists—**James Mulwana**
Patrick Mukumbi

MODULE VII

THE ROLE OF GOVERNMENT

Honorable Kafumbe-Mukasa

The Role of Government in the Post-Privatisation Process

Honorable Kafumbe-Mukasa
Deputy Minister of Finance
Republic of Uganda

INTRODUCTION

Mr. Chairman, distinguished delegates, ladies and gentlemen, it gives me great pleasure to have been given this opportunity to address you on this most topical subject of privitisation in this seminar. It is my view that this seminar could not have come at a better time than when the Government is trying its hardest to rehabilitate and reconstruct a shattered economy. This task should not be handled by Government alone; the private sector should play its role as well.

Mr. Chairman, ladies and gentlemen, the Government recognises the vital role the private sector plays in economic development. However, before I go on to discuss the role of Government in post-privatisation, or to put it another way, "what Government should do in order to facilitate the functioning of the private sector," it is important to put the topic, "The Government's Role in the Post-Privatisation Process" in context.

There are at least two possible interpretations of the term post-privatisation. The first interpretation is that because Government declared its intention to dispose of some parastatals and Departed Asian Property Custodian Board property, it should define its role with respect to what its role should be *after* disposal of these properties has been effected. The second possible interpretation, at the extreme, is that there is no private sector to talk of in Uganda, and that after Government has pronounced a policy of privatisation, its role in promoting and furthering privatisation should be defined.

I have called the second interpretation extreme for a reason. A private sector does exist in Uganda, being largely pronounced in the agricultural, transportation, and industrial sectors, both on a large and small scale. It is on record that the National Resistance Movement Government is promoting a mixed economy in which both the public and private sector are working hand-in-hand to rehabilitate the national economy, and Government is continuously examining ways and means to share the burden of economic development with the private sector. The central consideration in this process is a creation of national wealth by both the public and private sectors. However, whatever interpretation is tagged to the issue of post-privatisation, Government does have a role to play in order to facilitate the functioning of the private sector.

THE ROLE OF GOVERNMENT

Ideally, in a post-privatisation process, it is the duty of Government to adopt a policy framework conducive to private sector innovation, rational decision making, and efficient resource allocation. The Government, in order to bring about a conducive environment, would basically have to put in place measures to ensure security, and implement macro-economic policies that would support a competitive and efficient private sector. The factor of security is paramount and any degree of free market economy would not be sustainable without adequate security

The Macro-economic Environment

Apart from the security aspect, the role of Government in supporting the proper functioning of the private sector is to pursue prudent macro-economic policies that would encourage competition and a sense of fair play. In this regard, one is really targeting the fiscal and monetary measures, which instruments the Government basically uses to direct the activities in the economy. Among the fiscal instruments available to Government are tax policy and expenditure control in order to avoid or minimise deficit financing. The monetary policy centres around pricing policy, exchange rate management, and interest rates. The base position in the utilisation of these macro-economic policy instruments is to stimulate growth while at the same time controlling inflation.

Fiscal Policy

Taxation—Mr. Chairman, ladies and gentlemen, you are all no doubt aware that Government raises domestic revenue through taxation. If tax measures are harsh (given the economic circumstances), then productivity suffers due to diminished demand because of the higher prices. High tax levels also bring about evasion and, at the end of the day, neither Government nor the private sector benefits. In this respect, therefore, Government would have to determine what the appropriate level of taxes would be in order to encourage payment, and also be able to carry out its functions of providing infrastructure to support the activities of the private sector and the economy in general. In respect to taxation, it is important to note that the poor tax collection system has in the past contributed to the inability of Governments to institute what one would term an optimum tax level. Improvements in tax collection are being made to ensure that this goal is realised.

Expenditure—In a post-privatisation process, Government must maintain fiscal discipline as this has great implications for inflation. Government expenditure plays an important role in the level of prices, allocation of resources, the distribution of income, the balance of payment, and in the realisation of a host of other national objectives. In our situation past deficits have been excessive and, given the difficulty of mobilising additional revenue, control of expenditure is warranted in order to diminish the inflationary effects of deficit financing. Expenditure control suggests prioritisation of financing requirements as not all expenditure can be incurred, however great the pressures to spend become. The implications to the whole economy as a result of excessive deficit financing are high prices, and the promotion of speculative rather than developmental activities. The logical planning process for long-term investment is thwarted by the urge to invest in short-term ventures which have a higher nominal return. Government has to date been generally successful in controlling expenditure precisely to create a stable environment in which the private sector can carry out meaningful business and investment.

Monetary Policy

Credit Policy—As a direct result of the fiscal policy of Government, access to credit by the private sector is an important ingredient in creating a conducive environment to investment. In a post-privatisation era, it is the duty of Government to ensure that the public sector does not crowd out the private sector from access to credit or other resources. Government should normally desist from credit rationing policies that favour particular groups unless it perceives that there is a clear imbalance between key development-oriented sectors and the working capital-oriented sectors. The NRM Government is more interested in giving guidelines than directing credit rationing. Where specific credit for development is required, specific institutions may have to be created to address these needs. Already, some consultative work on establishing both industrial and agricultural finance institutions is going on. These moves illustrate the determination of Government to create a favourable economic environment in which the private sector can participate effectively.

Interest Rate Policy—One cannot talk about the availability of credit without mentioning the role of interest rates. In a way, depending on the perception of Government, interest rate policy can be used as a means to control and ration credit. This could be achieved by establishing a multiple interest rate regime that favours particular activities such as agricultural and industrial projects being charged lower interest rates. Some of the basic problems that could be encountered with such a policy are: first of all, enforcing compliance of such a structure; the possibility of Government having to subsidise the commercial banks for any losses incurred in administering the policy; and, even worse, some unscrupulous beneficiaries diverting the money from the intended purpose. In the direction of interest rates, Government recently introduced a negotiating range between the borrowers and the commercial banks that is between 25 percent and 50 percent. This move also was to encourage competition among the commercial banks who ultimately bear the risk of lending, and further, to bring notice to the private sector that serious businessmen now had a negotiating stance.

Exchange Rate Policy—Mr. Chairman, ladies and gentlemen, you all know the destabilising effects of an overvalued currency—the exporters are disadvantaged because they cannot receive a fair price for their exports, internal speculation and parallel exchange markets are the order of the day, and businessmen who get money for imports from the official channels reap supernormal profits by selling the goods at the open market rates. Overvaluation of the exchange rate is usually caused by high levels of inflation, and the reluctance of Government to correct the overvaluation. Mr. Chairman, ladies and gentlemen, it is important to realise that the fundamental factor that has to be controlled in this respect is inflation. This is in order to avoid the disruptive effects of either massive devaluations after long intervals of time, which would throw everyone including the private sector out of gear, or frequent corrections which would in themselves be disruptive in that it would be difficult for those companies whose inputs are imported to chart a reasonably precise pricing policy. The exporters would be better off with devaluation since they would be getting larger amounts of local currency for the same level of foreign exchange. In a nutshell, the exchange rate policy has implications on the producer prices, prices of imported goods, and capital flight. Over-valued exchange rates would bias production toward the domestic market, stimulate imports, promote capital flight and smuggling, all of which are undesirable. Realistic exchange rates would stimulate the private sector not only to produce but also to export. Government would have to ensure that inflation is kept in check in order to stabilise the level of the exchange rate so that an optimum position between importers and exporters is achieved.

Pricing Policies—Pricing policy seems to be a bridge-point between the monetary and fiscal policies, but in the context of post-privatisation, it plays an important part in determining whether or not a conducive environment is created for the private sector. There are two extreme views in this context—one is that of complete price control, and the other is one of market forces. Given the situation in Uganda, Government is evolving toward a situation of market forces. The Government's aim is to replace controls with market determined prices, but where and when necessary, guidelines, *not interference*, would be given in pricing exercises. In any event, these guidelines would only come in when the situation is considered untenable. At the present moment, there is no price control as such in Uganda, except on very few products such as petroleum. Companies in the private sector have been encouraged to set their prices according to what the market can take and this is one way of creating a conducive atmosphere, and encouraging commercialisation both in the public and private sector. Government has taken this direction in the realisation that price controls are cumbersome to administer and they end up being inefficient. Administered prices tend to benefit speculators and go-betweens in the illicit markets and, of course, the bureaucrats who administer the controls at the expense of low-income producers. Furthermore, although price controls are supposed to protect the poor consumers they often reduce the supplies available to the poor thereby raising the prices that poor consumers actually pay in parallel markets. Pricing of goods should be such that they cover economic costs. This is important because investment decisions are influenced by the appropriateness of pricing structures.

Socio-economic Infrastructure

Government, apart from creating a conducive economic environment, is obliged to provide the physical infrastructure such as roads, health facilities, electricity, water, and other utilities that would make it easy for the private sector to operate. This infrastructure is provided by collecting revenue through taxation, and also through borrowing and grants from external sources. By its very nature, this type of infrastructure is expensive both to create and maintain and can generally be cost-effectively created and operated through government machinery, which has the means to mobilise the needed funds to establish such infrastructure. However, one cannot deny the fact that the management of some of the parastatals and departments that provide these essential services or look after the infrastructure has been poor in Uganda. One can argue that the private sector could do a better job since they would have the profit motive to spur them to higher levels of efficiency. This fact may be applicable to more developed countries than Uganda, but indications are that Uganda's private sector also is suffering from a management crisis, and in many cases, many private businessmen have fallen back to Government for assistance and advice on how to run or improve their businesses. Government will continue to offer this social infrastructure, and will examine modalities for joint venture with the private sector even in this socio-infrastructure area. The basic goal of the NRM Government is to create an efficient and thriving economy. All means of achieving this goal are continually being examined by Government in the bid for burden-sharing between the public and private sector.

Financing Divestiture

Let me now turn briefly to the funding of any divestiture process, and I will address this area from the context that Government has already made a policy decision to divest itself of, or reduce its involvement in, a number of parastatals and Custodian Properties. There are at least three ways of financing this divestiture, namely, by Government borrowing from external sources in order to avail the private sector the necessary liquidity to purchase the properties; by Government assisting in the creation of financial markets such as a stock exchange to enable public participation in the purchase; and by Government encouraging joint ventures between foreign and local investors.

The financing methods mentioned above can be used in combination with one another especially when one is looking at the speed with which divestiture should be accomplished. Borrowing by Government on behalf of the private sector presupposes that the private sector would pay back Government and in turn Government repay the external loan at its due date. One major determinant of whether this particular method would be used or not is the viability of the property in question, and how soon it would generate the money required to pay back the loan. Secondly, one has to look at the total debt burden of Uganda and determine whether it would be in the best interests of the country to borrow more money in order to benefit a few people in the private sector. However, if the benefit is of strategic importance to the country as a whole, in my view, after all the preliminary assessments have been made, Government would consider using this financing approach.

With respect to the assisting in the creation of financial markets, the Government is willing to seriously consider this alternative once concrete proposals have been made. These financial markets also would assist Government by first of all taking away some of the financial burden of parastatals and shifting it to the private sector, and also would provide Government with some revenue and additional means to borrow from the public in order to make available some of the infrastructure that is badly required by the economy.

The Government is currently about to finish the examination of the Investment Regulations which would spell out in clear terms the benefits that would accrue both to local and foreign investors if they put their capital in the economy. These regulations would enable joint ventures between foreign and local investors, and the role of Government in this case is to put in place the enabling legislation that would protect both the local and foreign investor.

THE CONTRIBUTION OF THE PRIVATE SECTOR

Mr. Chairman, ladies and gentlemen, it would not by proper for me to conclude my remarks without touching on what the private sector should do in order to assist the Government to create a conducive environment for them to operate. In this respect, there are two points I would like to mention. First is the question of business ethics, and the second is one of entrepreneurship and efficient management.

In my own experience, Mr. Chairman, I have found the ethical conduct of some businessmen in the private sector leaving a lot to be desired. Apart from being consumptive rather than investment-oriented, tax evasion seems to be the biggest vice among their midst. Some businessmen go to extreme ends to avoid paying taxes including bribing the tax collectors, undervaluing goods for tax purposes, and overinvoicing for purposes of purchasing foreign exchange from the Central Bank. This attitude then prompts Government to be wary of the private sector in general because, as the saying goes, it only takes one person to blacklist the whole community. The few individuals who do this kind of thing then spoil it for the rest of the economy because Government normally has a target revenue position. The reaction by Government is, in some cases, to increase the levels of taxation in order to meet this target and thereby provide the necessary services. A valid retort to this assertion would be that Government improves its tax administration system. Government is continually improving the tax administration system through training and re-training of the officers, and by providing the necessary facilities for these officers to do their jobs. In order not to undermine the efforts of Government, I am appealing to the private sector to pay their taxes promptly and to those who have been bribing the tax officers to stop this practice.

Mr. Chairman, ladies and gentlemen, entrepreneurship and efficient management are key elements in the prosperity of any organisation. Both the public and private sectors have a shortage of well-trained and practically effective manpower, and the entrepreneurial skills to utilise scarce resources. The private sector should endeavour to train and build skilled manpower, including sponsorship of students in the University in the various skills. In this respect, the private sector should identify students in the disciplines required for their enterprises and sponsor one or two of them. The enterprises should be able to provide practical training to these students and therefore assist in bridging the theoretical and on-the-job experience gap. The Government is keen to develop true Ugandan entrepreneurs and will use whatever opportunities that are available to assist the private sector.

CONCLUSION

Mr. Chairman, ladies and gentlemen, I would like to conclude my remarks by stating that the Government and the private sector cannot do without one another. Government will continue its policy of providing a favourable climate for the private sector to operate effectively through the adoption of sound macro-economic policies. The private sector in turn should encourage ethical conduct in order to make it easy for Government to create a conducive environment. Government expects the private sector to be professional in its conduct.

Thank you very much, Mr. Chairman, ladies and gentlemen.

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