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An Assessment of the Investment Climate in Uganda

April 2009

Volume 1: Overview

Abbreviations

BOU	Bank of Uganda
BOUSD	Bank of Uganda Supervision Department
CEM	Country Economic Memorandum
ES	Enterprise Survey
GDP	Gross Domestic Product
GNI	Gross National Income
ICA	Investment Climate Assessment
IMF	International Monetary Fund
ISO	International Standards Organization
MSME	Micro, Small or Medium-sized Enterprise
PPP	Public Private Partnership
SMLE	Small, Medium-sized or Large Enterprise
SSA	Sub-Saharan Africa
TE	Technical Efficiency
TIN	Taxpayer Identification Number
US$	United States Dollar (Currency)
VAT	Value Added Tax

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EXECUTIVE SUMMARY

The Investment Climate Assessment (ICA) of Uganda looks at the obstacles that make Ugandan firms less competitive, discourage them from investing and stop them from growing. The ICA is based on results from the World Bank Enterprise Survey, a 663-firm survey conducted in late 2006. The survey collected detailed information on firm performance, what managers see as the main obstacles that they face, and objective data on various aspects of the investment climate. Additional sources of information are used to supplement the survey.

The Investment Climate in Uganda

In some areas, Uganda's investment climate compares favorably with the investment climates of other countries in the region and sometimes even with strong performing economies elsewhere in Africa and in East Asia. As well as having a positive macroeconomic environment with respect to stability and growth, the burden of regulation is relatively low especially in the area of labor regulation, tax rates are comparable with other strong performing countries, and the burden of tax administration is reasonable.

Further, Uganda has made progress in some areas in recent years. In particular, tax administration has been improved and red tape has been cut since an earlier Investment Climate Assessment completed in 2004. The burden of labor regulation, which was already low, has been reduced further and trade and customs administration has been improved. Finally, although petty corruption remains a concern, Uganda has improved its rankings in other areas of governance such as rule of law, regulatory quality and government effectiveness.

But this does not reduce the need for further reform. Firms remain in low value added, labor intensive areas of production. Although wages are low, productivity is even lower (i.e., unit labor costs are high) and, as a result, it is difficult for Ugandan firms to compete in international markets.

These problems reflect broader problems in the investment climate. Poor quality power and transportation infrastructure increase costs, reduce competitiveness in international markets, and inhibit exports. Problems with access to finance and high interest rates make it difficult for firms to invest. High informality means that formal firms have to compete with informal firms that evade taxes and avoid the burden of regulation. Moreover, informality appears to have become a greater constraint since the earlier 2004 Investment Climate Assessment, perhaps due to increases in counterfeit goods. Improving the investment climate in these areas would make firms more competitive and encourage job creation and investment.

Many of these observations have been made in previous studies. The 2004 *Investment Climate Assessment* and the 2007 *Country Economic Memorandum* (*CEM*) both emphasized that poor quality infrastructure and limited access to finance constrain firm performance and growth. And the 2004 *Investment Climate Assessment* also noted that productivity was low and unit labor costs high.

Firm performance

Total factor productivity, a broad measure of productivity that takes account of sector, size and capital usage, is lower in the manufacturing sector in Uganda than it is in most other countries in Sub-Saharan Africa (SSA). It is also far lower than in the countries in Africa and East Asia that have successfully entered export-oriented manufacturing. Moreover, there is little evidence that productivity has improved since 2003. In part, this probably reflects the problems caused by the power crisis that hit Uganda in 2006. Given the disruption that this caused, it might not be surprising that productivity has not increased significantly since the previous survey.

Although, as in the 2004 *Investment Climate Assessment* labor costs are low in monetary terms in Uganda ($740 in 2005 United States Dollars (US$) per worker per year), measuring labor costs in monetary terms is problematic. In particular, this does not take differences in productivity into account. Unit labor costs (labor costs as a percent of value-added) make it easier to assess the net impact of labor costs on competitiveness. When unit labor costs are higher (i.e., when labor costs are higher compared to productivity), firms will find it more difficult to compete on international markets than when they are lower. Although unit labor costs are lower than in Rwanda and Burundi, they are higher than in most countries where firms successfully entered export-oriented manufacturing (e.g., China, Mauritius, and Thailand).

Power

In addition to being asked about firm performance, firm managers were also asked subjective and objective questions on the investment climate. In particular, they were asked what they see as the biggest problems that they face. By far, the biggest concern was power. Close to 80 percent of small, medium and large enterprise (SMLE) and microenterprise managers reported that electricity was a serious obstacle—higher than in many other countries and far higher than in the countries that have successfully entered export-oriented manufacturing. For example, only about 30 percent of firms in China and India said that power was a serious problem and less than 15 percent of firms in Thailand and Malaysia said that this was the case.

The extraordinarily high level of concern about power partly reflects the serious power crisis that hit Uganda before the 2006 Enterprise Survey and that was still ongoing as the survey was taking place. Load shedding had become widespread and outages of 10 or 12 hours were common. Moreover, tariffs were increased by about 80 percent in 2006 to cover the increased cost due to an increasing reliance on thermal generation. Given the extent of the crisis, it is not surprising that firms in Uganda were far more likely to say that power was a problem during the 2006 survey than in previous surveys.

The objective data collected in the Enterprise Survey is consistent with the subjective data. The average manufacturing SMLE reported losses that were equal to over 10 percent of sales in 2005 (see Figure 6). Since outages were even more common in 2006 than in 2005, losses were also likely to be higher in 2006. This was considerably higher than in 2003, when the average firm reported that losses were equal to only about 5 percent of sales. Although SMLEs in other countries in the region such as Tanzania and Rwanda reported similar losses,

this is far higher than in most countries especially those with successful export-oriented manufacturing sectors.

Access to Finance

Although far fewer firms said that access to finance was a serious problem than said the same about power, it was a significant concern for both microenterprise and SMLE managers. Over 70 percent of microenterprise managers (2nd most serious concern) and about 50 percent of SMLE managers (3rd most serious concern) said this was the case.

Objective information on access to finance also suggests that access to finance is limited. On average, SMLEs report that they finance about 13 percent of their new investment with bank financing. Although this is similar to Tanzania, it is slightly lower than most other countries in East Africa and is far lower than in better performing economies. For example, firms in Thailand finance about 58 percent of their investment with bank financing and firms in Mauritius finance about 34 percent in this way. In general, there is little evidence that access to finance has improved since the 2004 *Investment Climate Assessment*.

Although it is difficult for some firms, and particularly microenterprises, to get bank financing, many others without bank financing did not want it at current interest rates. For firms that had not applied for a loan, the most common reasons that they gave for not applying were that they did not need a loan or that they thought interest rates were too high. About one-third of firms said that each was the main reason why they had not applied for a loan. This suggests that risk aversion and high interest rates discourage borrowing in Uganda.

The objective data is consistent with the idea that high interest rates discourage borrowing—SMLEs in Uganda reported paying higher interest rates than SMLEs in other countries with comparable data. The median firm reported interest rates of about 22 percent in Uganda. In comparison, the median firms in Burundi, Rwanda, Kenya, and Tanzania reported nominal interest rates between 14 and 20 percent and the median firms in Mauritius, South Africa and Swaziland reported rates between about 11 and 13 percent.

Informality

Like many other countries in Sub-Saharan African, Uganda has a dynamic and growing informal sector. Although informality can reduce poverty and encourage entrepreneurship, it reduces government revenues and makes it more difficult for the government to meet its goals through regulation. Moreover, to the extent that informal firms do not comply with government rules, it can undermine other government policies and ultimately reduce trust in the rule of law and government effectiveness.

But in addition to the challenge to government, informality can also be a problem for formal firms that pay their taxes and comply with regulations. Since informal firms avoid the cost of compliance with these rules, they have an unfair advantage over formal firms that bear the cost. That is, inefficient informal firms can survive and even drive more competitive formal firms out of business by avoiding the costs associated with taxation and regulation.

It is not surprising that competition from informal firms is a serious concern for firms in Uganda, especially for small firms. About 39 percent of SMLEs and about 48 percent of microenterprises (some of whom might also be informal) said that competition from the informal sector was a serious constraint on doing business. Microenterprises and very small firms were most likely to say that informality was a problem.

When microenterprises were asked about the barriers to becoming formal, the biggest concerns were the financial burden of taxes and the financial cost of registering. About 60 percent of firms said that the financial burden of taxes was a serious barrier and about 48 percent said that the financial cost of completing registration procedures was a serious barrier. Reducing these costs could reduce informality.

Summary

Although the investment climate in Uganda is favorable in some ways—and has improved in some areas since 2003—problems remain. The Investment Climate Assessment discusses each area of the investment climate and proposes some policy recommendations to improve it. The Investment Climate Assessment is made up of two volumes. The first provides a brief overview of the main issues and some policy recommendations. The second volume provides far greater detail on each area of the investment climate and includes econometric appendices that outline the econometric analysis that underlies many of the results.

OVERVIEW

1. **The goal of the Investment Climate Assessment (ICA) of Uganda is to evaluate the investment climate in Uganda in all its operational dimensions and to promote policies to strengthen the private sector and encourage broad-based economic growth.** Sustained improvements in living standards depend on broad-based growth. Growth will only occur, however, if firms improve their productivity by investing in human and physical capital and by increasing their technological capacity. But firms will only do this when the investment climate is favorable.

2. **The main source of information for the ICA is the Enterprise Survey—a 663 firm survey that collects information on firm performance, the labor market, the financial sector, infrastructure, and the regulatory environment**. Information from the survey will be supplemented with information from other sources including the *Doing Business Report*; analytical reports by the World Bank, the International Monetary Fund (IMF), other international organizations and the Government of Uganda; and academic papers and reports.

3. **Enterprise Surveys have been conducted in many countries throughout the world meaning that Uganda's investment climate can be benchmarked against those of other economies**. One of the advantages that the World Bank's Enterprise Survey (ES) has over other firm surveys is that the World Bank has conducted similar surveys in over 100 countries throughout the World. Because the sampling and survey methodology and the questionnaire are the same, it is possible to benchmark Uganda's investment climate against those of other countries. Throughout the report, Uganda's investment climate is compared to the investment climates of three groups of countries: (i) nearby countries in East Africa (Kenya, Tanzania, Rwanda and Burundi); (ii) middle-income countries in Sub-Saharan Africa (SSA) that have successfully diversified out of primary production into other sectors (Mauritius, South Africa and Swaziland); and (iii) several fast growing countries in East Asia that have also successfully diversified out of primary production into export-oriented manufacturing (China, Malaysia, and Thailand).

4. **The 2008 ICA is the second Investment Climate Assessment for Uganda**. An earlier assessment, based upon a survey completed in 2003, was completed in 2004. One of the goals of the 2008 ICA is to see how much progress has been made since the previous survey (see Box 1). The 2003 survey, which was one of the earliest Enterprise Surveys, was conducted using a slightly different sampling methodology and questionnaire than the methodology and questionnaire used in the 2006 survey. In some cases, this can make comparisons with the 2003 survey difficult. In this volume, this is mostly avoided by comparing responses of panel firms—firms that were interviewed in both 2003 and 2006.[1]

I. Macroeconomic Background

5. **Although Uganda is small and landlocked, its recent economic performance has been impressive.** Uganda is well known as one of Africa's success stories achieving macroeconomic stability and strong growth (see Table 1). Inflation was reduced from between 20 and 40 percent at the beginning of the 1990s down to between about 2 and 3

percent by 2000-01. Although it increased in the mid-late 2000s, it remains relatively modest. These macroeconomic successes have been complemented by microeconomic restructuring. Over the past decade, the Government of Uganda has successfully deregulated and privatized large parts of the economy.

Box 1: The 2004 *Investment Climate Assessment*

The 2008 ICA is the second investment climate assessment for Uganda. An earlier assessment, based upon a survey completed in 2003, was completed in 2004. The main results of the earlier report were:

Productivity. Labor productivity was lower in Uganda than in Kenya, Tanzania or in the two low-income countries from Asia that were used as comparators: India and China. Although labor costs were low in monetary terms, because productivity was even lower, the ratio of wages to productivity (unit labor costs) was quite high. The report notes that high unit labor costs made it difficult for firms to compete in international markets.

Perceptions about the Investment Climate. Firm managers were most likely to say that the cost of financing was a serious problem—about 60 percent of firms said that it was a serious obstacle to their enterprise's operations and growth. Although managers of foreign firms were slightly less likely to say it was a serious problem than managers of domestic firms, it ranked among the top concerns of most other types of firms (e.g., exporters and non-exporters, and large and small firms). Other common concerns included tax rates, macroeconomic instability, the power sector and corruption.

Power. Close to 45 percent of firm managers said that access to power was a serious problem for their business. Objective data on losses due to power outages also suggest that this is the case.

Finance. Consistent with the high levels of concern about finance, few firms had bank financing. Only about one-third of firms had bank credit (loans or overdrafts), compared to about four fifths in Kenya. Moreover, most loans were short-term—nearly two fifths of loans were for a year or less. Firms without audited accounts, small firms and young firms were less likely to have bank credit than other firms.

Administrative and Regulatory Constraints. Administrative and regulatory constraints tend to be a significantly greater burden on large, exporting and foreign firms than on other firms. Senior management of these firms spends more time dealing with regulatory requirements and almost twice as long dealing with inspections for these firms. Losses due to fines and confiscated goods are also higher for these firms.

One of the goals to the 2008 investment climate assessment is to see how much progress has been made in these areas since the previous survey. As discussed in Appendix 1.2, different sampling methodologies can make it difficult to make some direct comparisons and so care has to be taken when doing so.

Source: Regional Program on Enterprise Development (2004b)

6. **Uganda's reputation as a successful reformer reflects the rapid growth that has occurred in Uganda over the past two decades**. As noted in the recent *Country Economic Memorandum (CEM)*, this is all the more remarkable given Uganda's geographical disadvantages and its limited mineral resources.[2] Although growth has slowed slightly since the mid-1990s, it averaged 5.7 percent between 2000 and 2007, faster than the average for SSA (4.2 percent). Moreover, this occurred despite a shift in Uganda's terms of trade. The *CEM* notes that if this is taken into account, Uganda's underlying rate of growth does not appear to have fallen significantly.[3]

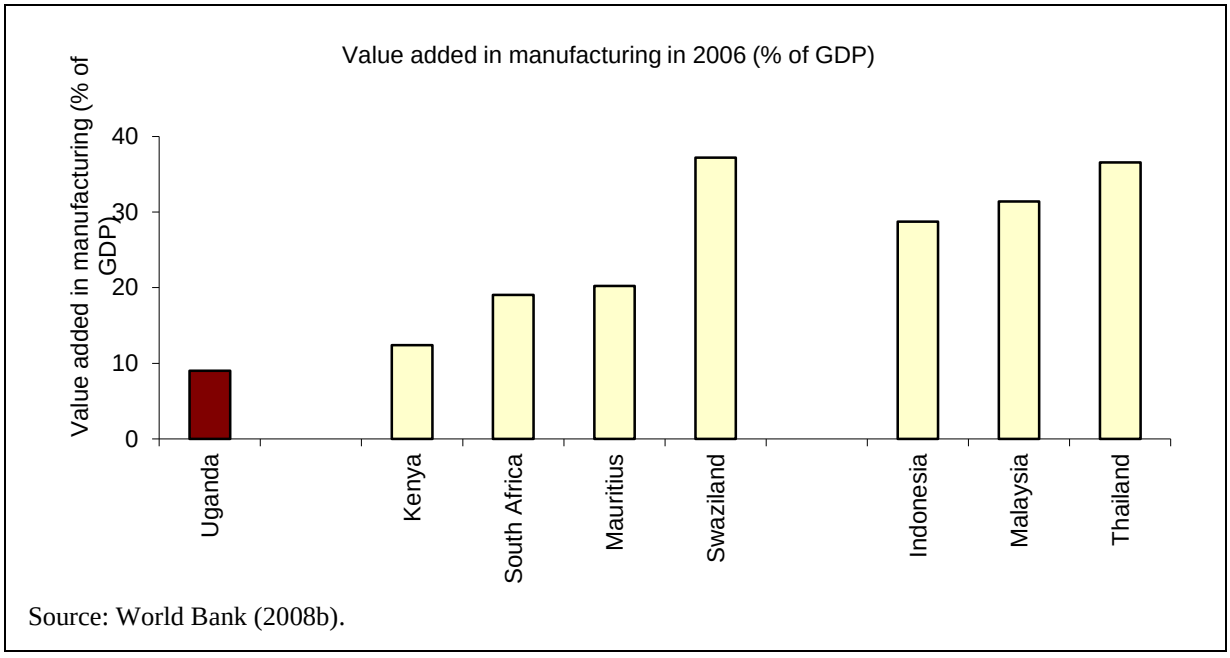
Table 1: Growth and inflation in Uganda, 2000-2007

	2000	2001	2002	2003	2004	2005	2006	2007
Economic Growth								
GDP growth (annual %)	5.6	4.9	6.4	4.7	5.4	6.7	5.1	6.5
GDP per capita growth (annual %)	2.5	1.7	3.1	1.4	2.1	3.3	1.7	2.9
Macroeconomic Stability								
Inflation, GDP deflator (annual %)	3.8	6.5	-3.9	9.8	6.3	7.9	8.6	8.2
Inflation, consumer prices (annual %)	2.8	2	-0.3	7.8	3.3	8.2	6.8	6.1
Manufacturing Size								
Manufacturing, value added (% of GDP)	9.8	9.5	10.0	9.3	9.2	9.3	8.8	8.8

Source: World Bank (2008b)

7. **Despite these successes, Uganda remains poor and faces continued challenges**. Uganda is a small economy with a population of close to 30 million people. Per capita Gross Domestic Product (GDP) was equal to about $939 in 2007 in price purchasing parity adjusted terms means that its domestic market is small.[4] In addition, its land-locked location makes exporting more difficult.[5]

Figure 1: Manufacturing is less important in Uganda than in the comparator countries.



Source: World Bank (2008b).

8. **Uganda remains heavily dependent upon agriculture**. The *Country Economic Memorandum*, which includes a detailed analysis of the agricultural sector, argues that the agricultural sector cannot absorb the large increases in workers and dependents that will occur over the next few decades and that limits to environmentally sustainable area expansion—the main sources of growth in the sector—have been reached in most of the country.[6] It argues that increases in off-farm employment are necessary, including in urban areas.

9. **Manufacturing has not increased significantly as a share of GDP**. Over the past decade, manufacturing has accounted for about 9 to 10 percent of GDP (see Table 1). Although this is higher than in neighboring Tanzania, it is slightly lower than in Kenya (see Figure 1). Moreover, it is considerably lower than in the best performing countries in Sub-Saharan Africa (between about 20 and 40 percent of GDP) and in the fast growing countries in East Asia (between about 30 and 40 percent) that have successfully diversified into export-oriented manufacturing.

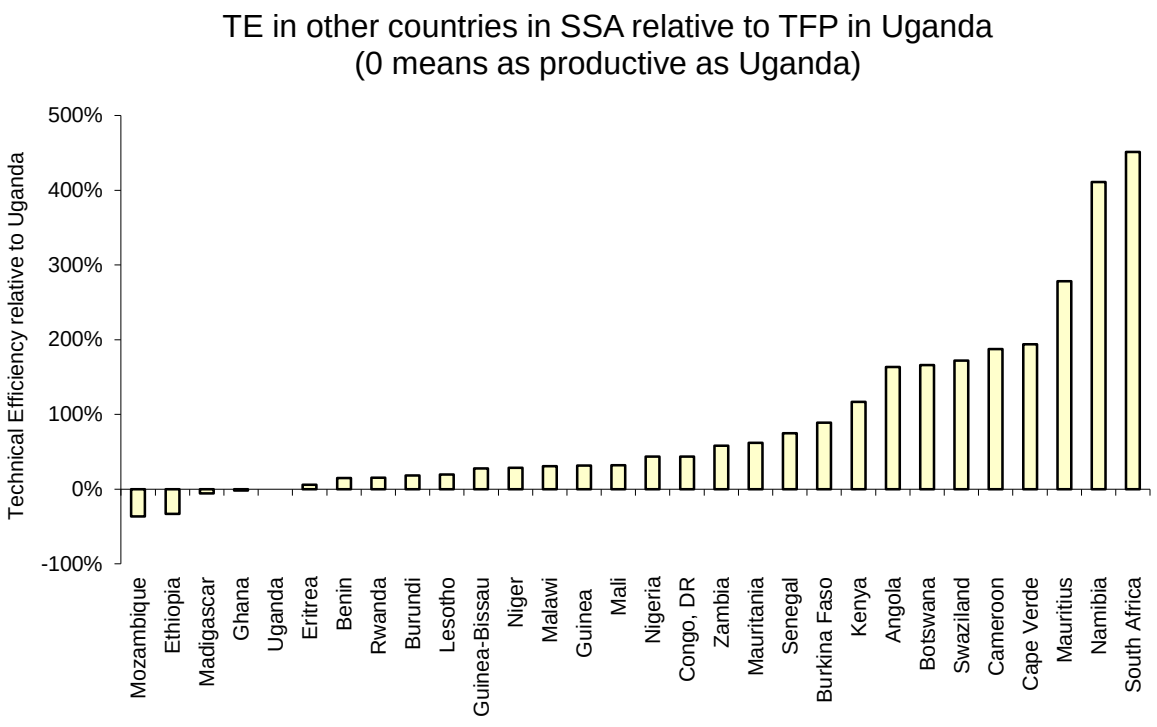
II. Firm Performance[7]

10. **The 2004 *Investment Climate Assessment* notes that manufacturing productivity was low in Uganda in 2003, making it difficult for firms to compete internationally**. Based upon an analysis of the 2003 Enterprise Survey, the previous Investment Climate Assessment noted that productivity was lower in Uganda in 2003 than in the best performing countries in the region, on the continent and in the world. Although labor costs were low in real dollar terms, productivity was even lower. As a result, unit labor costs (i.e., the ratio of labor costs to value added) were high—especially when compared to unit labor costs in East Asia in the 1970s before that region's rapid growth and expansion.[8]. The 2004 report concluded that this would make it hard for Ugandan firms to compete on international markets.

11. **Analysis of the data from the 2006 Enterprise Survey confirms that productivity remains low in Uganda**. [9] Productivity is lower in Uganda than in most other countries in SSA and is considerably lower than in the best performing countries (see Figure 2). Both labor productivity and total factor productivity are lower than in most other countries in SSA. Technical efficiency is about 4 times higher in South Africa, about 3 time higher in Mauritius and about twice as high in Swaziland. Productivity is also lower than in Kenya and Tanzania, although it is very close to TFP in Rwanda and Burundi. Because total factor productivity takes account of sector, size and capital usage, the results suggest that neither the lower levels of capital observed in Uganda nor the differences in firm characteristics such as size and sector fully explain the differences in productivity between Uganda and the best performing countries in the region or in SSA as a whole.

12. **Moreover, there is little evidence that productivity of manufacturing SMLEs has improved since 2003**. By comparing the productivity of firms in the 2003 and 2006 surveys, it is possible to assess changes in productivity.[10] Although the relatively small sample size means that it is difficult to draw strong conclusions, the results suggest that productivity has not increased significantly, if at all, since the previous survey. In part, this probably reflects the problems caused by the power crisis that hit Uganda in 2006. Given the disruption that this caused, it might not be surprising that productivity has not increased significantly since the previous survey.

Figure 2: TE is lower in Uganda than in the best performing countries in SSA.



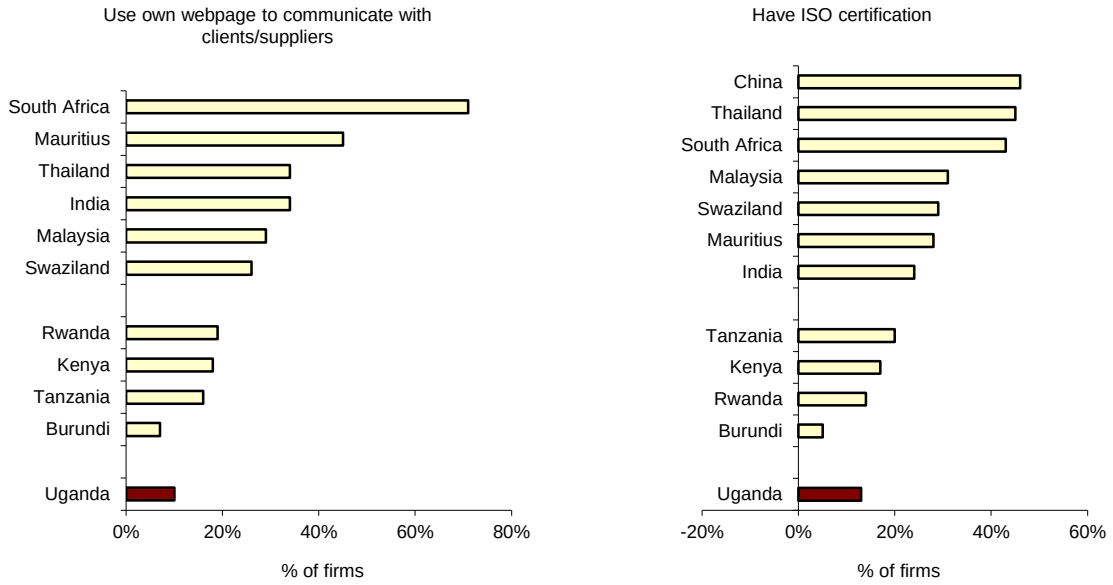
Source: World Bank Enterprise Surveys.
Note: See Appendix 2.1 in Volume 2 for description of methodology. Residuals are from median regressions. Cross-country comparisons are for manufacturing firms only. Positive numbers mean that that country is more productive than in Uganda (i.e., 50 percent means that firms are on average 50 percent more productive in that country than in Uganda) and negative numbers mean that the average firm is less productive than in Uganda (i.e., -50 percent means that the average firm is 50 percent less productive than the average firm in Uganda).

13. **Within Uganda, manufacturing SMLEs that use technology more intensively are more productive than other similar firms**. There is robust association in the data between technology use and TE in Uganda. In particular, firms that are International Standards Organization (ISO) certified and those that have their own website are much more efficient than firms that do not (47 percent and 52 percent respectively). It is important to note however, as discussed in more detail in Appendix 2.1 in Volume 2, that it is difficult to draw strong conclusions from this analysis on the direction of causality (i.e., whether firms become more productive because they invest in technology or whether firms that are already more productive have more resources to invest in technology).

14. **Although the variables representing technology use appear to be strongly related to productivity, manufacturing SMLEs in Uganda tend to be less tecnologically advanced than in most of the comparator countries**. Although firms in Uganda are more likely to

have their own website and ISO certification than firms in Burundi, they lag behind the other countries in the region in both respects (see Figure 3). Moreover, the gap between Uganda and the countries that are more successful with respect to export-oriented manufacturing is even larger.

Figure 3: Firms in Uganda are less likely to have ISO certification and less likely to use their own website to communicate with clients than other firms.

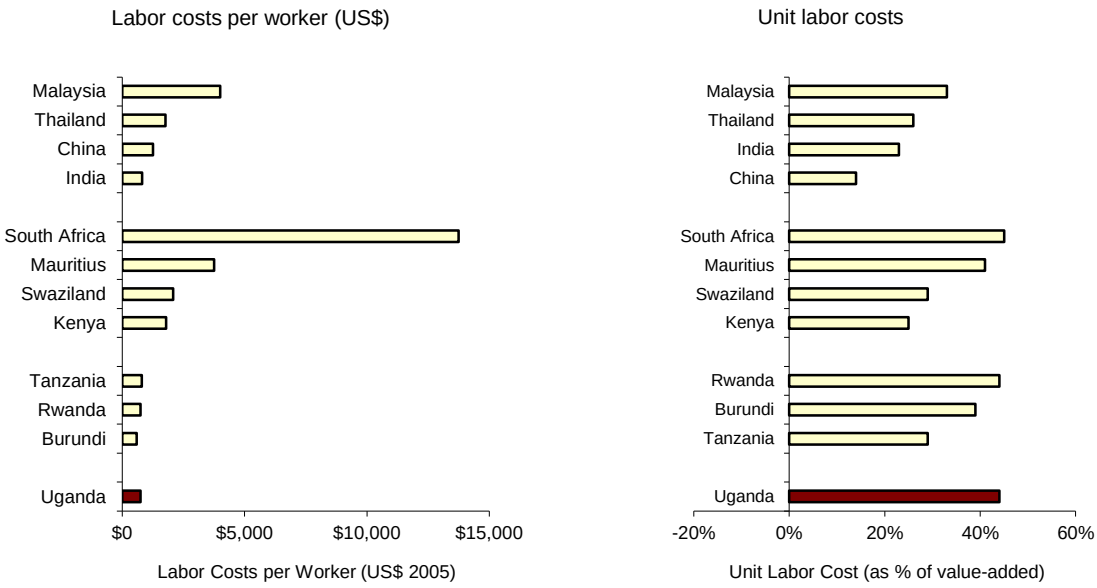


Source: World Bank Enterprise Surveys
Note: Cross-country comparisons are for manufacturing firms only.

15. **Labor costs remain low in monetary terms in Uganda**. As in the 2004 *Investment Climate Assessment*, firms report relatively low labor costs, with the median firm reporting labor costs of $740 per worker per year. This is roughly comparable the amount that firms in Burundi Rwanda, and Tanzania report, is slightly lower than firms in India report, and is considerably lower than in the successful manufacturing economies (see Figure 4).

16. **Measuring labor costs in monetary terms is problematic, however, because it does not take differences in productivity into account**. Unit labor costs (labor costs as a percent of value-added) make it easier to assess the net impact of labor costs on competitiveness by taking these differences into account. Unit labor costs are higher when higher labor costs are not fully reflected in higher productivity. When unit labor costs are higher (i.e., when labor costs are high compared to productivity), firms will find it more difficult to compete on international markets than when they are low.

Figure 4: Labor costs are lower in Uganda than in most of the comparator countries—although they are high relative to productivity.



Source: World Bank Enterprise Surveys.
Note: See Chapter 2 in Volume 2 for methodology. Cross-country comparisons are for manufacturing firms only. All values are for the median firm in each country.

17. **Although labor costs are low in monetary terms, they are relatively high compared to productivity and could potentially be a drag on competitiveness in international markets**. As in the 2003 Survey, Ugandan firms compare poorly with firms in other developing countries with respect to unit labor costs. Because labor productivity is even lower compared to most of the comparator countries than labor costs are, unit labor costs are higher than in the most of the comparator countries that are successful in manufacturing (see Figure 4). Moreover, unit labor costs do not appear to have improved significantly in recent years. There was only a small difference in unit labor costs between the 2003 and 2006 surveys.[11]

18. **Uganda compares more favorably with the regional comparators with respect to unit labor costs, suggesting that Ugandan firms will be more competitive in regional markets**. Unit labor costs are also fairly close to unit labor costs in Rwanda and Burundi, suggesting that the median Ugandan SMLE should be relatively competitive in these regional markets. Uganda compares less favorably with Tanzania since labor productivity is considerably higher in Tanzania than in Uganda whereas wages are only slightly higher.

19. **That unit labor costs are high despite wages being low in monetary terms emphasizes the need to increase productivity**. High unit labor costs do not appear to be primarily the result of wages being high in monetary terms. That is, unit labor costs are high primarily because productivity is low rather than that wages are high in monetary terms. In this respect, the focus should be on increasing productivity to make unit labor costs more

competitive without having to reduce wages. Improving the investment climate and worker education and skills are two important components in this respect.

III. Firm Perceptions about the Investment Climate[12]

20. **As well as collecting information on firm performance, the Enterprise Survey also collects information on the investment climate**. The survey includes questions on topics such as access to infrastructure, taxation, access to finance, competition from the informal sector, and corruption. The questionnaire includes two types of questions on the investment climate: (i) subjective questions about what managers see as the major problems that they face; and (ii) objective questions that try to measure investment climate constraints in terms of things such as time and money.

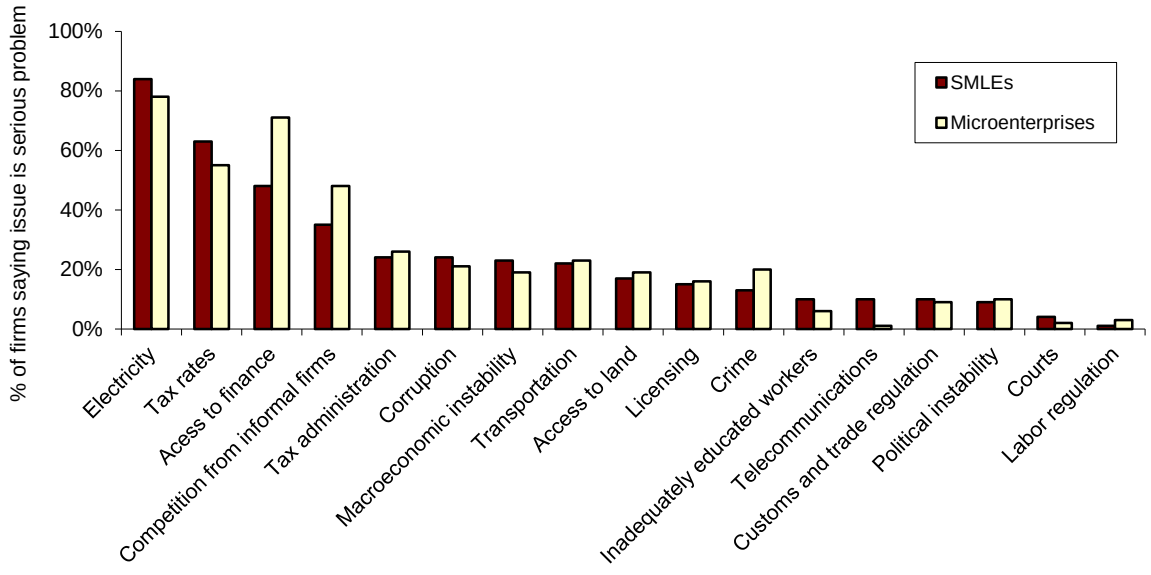
21. **Manager's perceptions about the investment climate provide a very useful starting point for any analysis of investment climate constraints**. Although perception-based data has drawbacks (see Chapter 3 for discussion), it is important to take the views of enterprise managers seriously. They will have a better view of the obstacles they face than anyone else. Therefore as a starting point for the analysis of the investment climate, this section looks at what enterprise managers say are the biggest obstacles that they face.

22. **Power was by far the greatest concern of microenterprise and SMLE managers**. Over 80 percent of SMLE managers and close to 80 percent of microenterprise managers said that electricity was a serious obstacle (see Figure 5)—a far greater share than said the same about any other constraint. Moreover, close to two-thirds of SMLE managers and over one half of microenterprise managers said that it was the biggest problem that they faced. Although, as discussed below, this partly reflects the transitory impact of the power crisis, this demonstrates the serious problem that the crisis caused for firms in Uganda.

23. **Tax rates, access to finance, and competition from informal firms were also rated as serious problems by both SMLE and microenterprise managers**. Over fifty percent of microenterprise and SMLE manager also said that tax rates were a serious problem—the second greatest constraint for SMLE managers and the third greatest constraint for microenterprise managers based upon the percent of firms that said they were a serious problem. SMLE and microenterprise managers also agreed that access to finance was a serious constraint. It ranked as the second greatest constraint for microenterprise managers and third for SMLE managers. Finally, competition from informal firms ranked as the fourth greatest constraint for both type of firms.

24. **Although managers of SMLEs and microenterprises had very similar views about the investment climate in Uganda, there were some differences in their perceptions**. One notable difference was that although microenterprise managers were both concerned about access to finance, microenterprise managers were significantly more likely to say it was a serious problem than SMLE managers. Over 70 percent of microenterprise managers said it was a serious obstacle compared to only about 50 percent of SMLE managers.

Figure 5: Both SMLEs and microenterprises are most likely to be concerned about electricity, access to finance, tax rates, and competition from informal firms.



Source: World Bank Enterprise Surveys.

Changes since 2003.

25. **Many of these same concerns ranked among firm managers' top concerns in the 2003 Enterprise Survey**. In particular, electricity, access to finance, tax rates and corruption all ranked among top concerns in both 2003 and 2006. Other areas, such as most other areas of regulation, access to land, and crime did not rank among the top concerns in either year.

26. **There were, however, some notable differences between the two surveys including[13]:**

i. ***The crisis in the power sector has meant that firms were far more likely to say that power was a serious problem in 2006 than in 2003***. After controlling for other differences between firms, the difference was close to fifty percentage points. This emphasizes the massive impact that the crisis had on the private sector in Uganda.

ii. ***Firms have also become more concerned about other aspects of infrastructure***. Firms were also more likely to say that transportation was a serious problem in 2006 than in 2003, although the difference is smaller (10 percentage points).

iii. ***Although firms were more likely to say that access to finance was a problem in 2006 than in 2003, it is hard to interpret these results for two reasons***. First, 'access to finance' explicitly refers to both the cost and availability of financing in 2006, but only to availability in 2003. The 2003 survey also includes a separate question on the cost of financing, making it difficult to interpret the results. Since 'cost of financing' was the biggest concern in 2003, this makes it difficult to conclude that firms are more concerned about financing in 2006 than in 2003. Second, although the difference in perceptions is

large (16 percentage points) and statistically significant in the cross-sectional analysis, it is smaller and statistically insignificant in the panel analysis. Because of this, changes in access to finance can be better analyzed looking at objective indicators of the investment climate (see below).

iv. ***Firms were less concerned about most areas of the investment climate in 2006 than in 2003***. In particular, they were less likely to say that tax administration (19 percentage points), trade regulations (27 percentage points), labor regulation (5 percentage points), worker education and skills (21 percentage points), macroeconomic instability (27 percentage points), corruption (21 percentage points) and crime (15 percentage points) in 2006 than in 2003.

Box 2: Reforms since the 2003 Investment Climate Assessment

The 2003 Investment Climate Assessment included suggestions for reforms in several areas of the investment climate. This box summarizes the changes that the Government of Uganda implemented since the 2003 survey.

Maintaining Macroeconomic Stability. Given Uganda's good macro economic performance, the main recommendation of the ICA was that the Government of Uganda continues to demonstrate that its macro economic framework will remain stable in the long-term. In addition, it recommended that Uganda should maintain a low administrative budget and reinforce the image of a lean professional civil service. While the macro economic framework has been maintained even in light of the conflict in the North the administrative budget has grown significantly. If this growth is not checked, it could pose a serious challenge in the future.

Encouraging Private provision of Social and Infrastructure Services. In line with it recommendation that the Government should maintain a lean civil service, the 2003 ICA recommended divesting and contracting out services that could be preformed more efficiently by the private sector. It argued that an appropriate legal and regulatory framework should be established for private public partnerships in the delivery of social and infrastructure services. The Government of Uganda started preparing the legal and regulatory framework for public private partnerships (PPPs) in 2007, and is in the process of developing a PPP framework. It expected that the framework should be in place by 2009 and a PPP unit established.

Establishing a low cost operating environment. One of the 2003 ICA's main recommendations was that the Government should continue to establish a competitive investment environment based on a transparent incentive structure and updated legal framework for investment. It recommended that accelerating the commercial legal reforms started in 1999 and updating the investment code. Should be key priorities. It also recommended that export processing zones should be made fully operational to attract high quality investment. The Government has reformed and enacted several important pieces of legislation including the companies act, labor law, and the e-signatures act since 2003. Other major pieces of legislation, including an investment code and mortgage bill, remain in the drafting stage or under discussion

Improving tax administration. The 2003 ICA recommended that Uganda's tax laws be made more unambiguous and consistent with the investment code. It also suggested that tax policy should be predictable and that new tax measures that depart from this policy should be minimized. Some reforms have been made. For example, the Government has managed to transform the Uganda Revenue Authority into an efficient institution with a reputation for integrity, which enforces the law but remains cognizant of the need to foster a productive private sector.

Other issues still need to be resolved. As mentioned above the investment code has still not been amended and therefore no longer applicable tax holidays offered under the investment code remain inconsistent with tax laws. Further some new taxes, such as the taxation of airtime and connectivity, do not appear to been fully justified other than with respect to revenue generation and tax

concessions have been made in other areas. Finally, a clear tax policy that enhances Uganda's competitiveness given its location, encourages formalization of businesses, new investment in technology, inclusion of under developed regions etc is still needed.

Ensuring sound financial market development. The 2003 ICA noted that reforms to support financial service providers and improve their ability to respond to the needs of the private sector needed to be developed, particularly in the areas of pension and insurance, capital markets, credit registry and long-term finance.

The Government has established and licensed the first Credit Reference Bureau (CRB) and provided capacity building and institutional strengthening (computerization) for the Capital Market Authority. However, major reforms in pensions and long-term finance have not been implemented or even started.

Increasing the Efficiency of Services (Infrastructure). The Government of Uganda completed the restructuring of the utilities sector as recommended in the 2003 ICA. The concession of Uganda Railways was signed in 2007. There is private participation in power generation, transmission and distribution, the National Water and Sewerage Corporation while remaining a public company is applying private management arrangements in small towns where feasible. The only major sector which has not been reformed and where regulation and service provision overlap is Civil Aviation

27. **Although the lower levels of concern about most areas other than power and transportation is encouraging, the overwhelming impact of the power crisis means that it is hard to interpret these results as evidence of improvements in other areas of the investment climate**. Although in several areas the improvement appears to reflect positive improvements in the investment climate, in others it could also reflect that the crisis in the power sector overshadowed all other concerns. That is, it is not clear that firms have an absolute scale in mind when ranking obstacles. If they have a relative scale in mind rather than an absolute scale, the improvements in other areas could partly reflect the deteriorating performance of the power sector between 2003 and 2006. For these reasons, it is important to also look at objective indicators of the investment climate.

IV. Power[14]

28. **As in many countries in Sub-Saharan Africa, access to and the quality of infrastructure has been a serious problem in Uganda for a long time**. The recent *Country Economic Memorandum* argues that infrastructure is the binding constraint to investment and growth in Uganda and that getting its infrastructure basics right should be the country's first priority.[15] Similarly, power also ranked among the top concerns in the 2003 Enterprise Survey.[16] In the 2006 Enterprise Survey, managers were far more concerned about power than any other area of the investment climate.

29. **The extraordinarily high levels of concern about power partly reflects the serious power crisis that hit Uganda as the 2006 Enterprise Survey was taking place**. Load shedding had become common and outages of 10 or 12 hours were common. Moreover, tariffs were increased by about 80 percent in 2006 to cover the increased cost due to an increasing reliance on thermal generation. It is in this context that the Enterprise Survey took place (see Box 3).

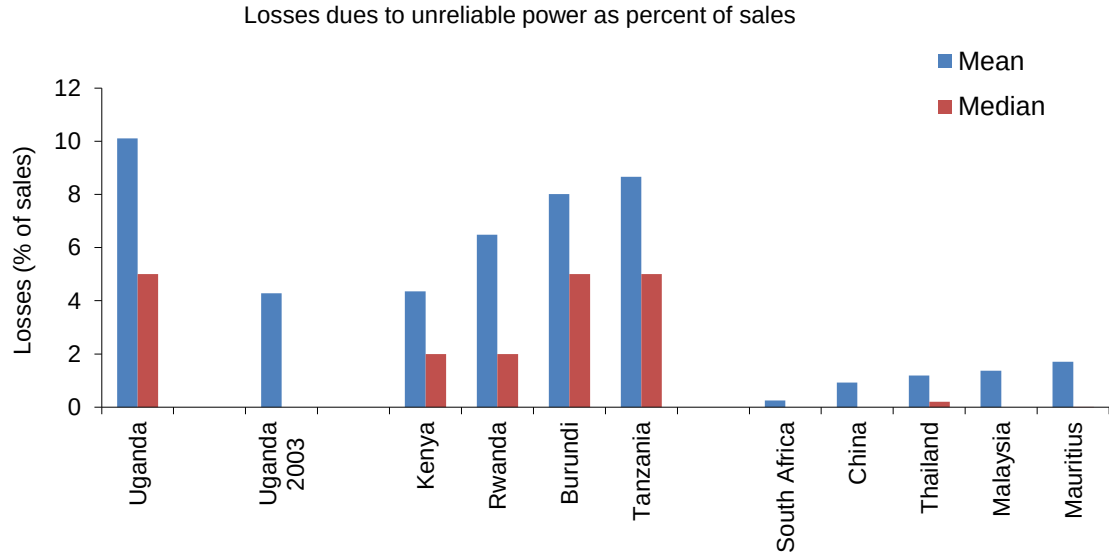
30. **Under these circumstances, it is not surprising that enterprises were far more likely to say that power was a serious obstacle than any other area of the investment climate**.

Close to 80 percent of both SMLEs and microenterprises reported that electricity was a serious obstacle. Among SMLEs in the manufacturing sector, more than 90 percent said that electricity was a serious problem. This was higher than in any of the other comparator countries—even Tanzania, which was also undergoing a very serious crisis at the time of the survey.[17] When compared with countries outside of Africa, Uganda compares even less favorably. About 30 percent of firms in China and India said that power was a serious problem and less than 15 percent of the firms said this was the case in the other comparator countries. Given the extent of the crisis, it is not surprising that firms in Uganda were far more likely to say that power was a problem during the 2006 survey than in the 2003 survey.

31. **Firms reported serious problems with outages in 2005 and 2006**. Manufacturing SMLEs in the 2006 Enterprise Survey reported serious problems with outages in both 2005 and 2006. The average manufacturing SMLE in the 2006 Enterprise Survey reported 11 days of outages in an average month in 2005 and 13 days in the month prior to the survey (in late 2006). This is far higher than in 2003 when the average manufacturing SMLE reported only about 2 days of outages per month.[18] This is consistent with the perception data that suggests that SMLEs in the 2006 survey were far more concerned about problems in the power sector.

32. **Frequent and long power outages result in high indirect costs and lost sales**. For SMLEs reporting outages—and most firms did report outages—firms reported average losses that were equal to over 10 percent of sales in 2005 (see Figure 6).[19] The median firm reported losses equal to 5 percent of sales. Since outages were even more common in 2006 than in 2005, losses were also likely to be higher. This was also considerably higher than in 2003, when firms reported that average losses were equal to only about 4 percent of sales.[20] Power outages appear to hit all types of enterprises and to be equally frequent across firm types—that is, they were not affecting only a small part of the economy.

Figure 6: SMLEs in Uganda reported very high losses due to power outages.



Source: World Bank Enterprise Surveys; Regional Program on Enterprise Development (2004b).
Note: Outliers more than three standard deviations from the mean are excluded. Cross-country comparisons are for manufacturing firms only..

Box 3: Infrastructure Investment in Uganda

At the time that the Enterprise Survey was conducted (late 2006/early 2007), Uganda was facing a serious power crisis. Since this time, the Government has taken several steps to increase capacity in both the short and medium-term. A 50MW diesel plant was commissioned in Kampala in May 2005 (World Bank, 2007c) and additional thermal capacity was commissioned after the crisis began. Heavy rains in 2007, which raised the level of water in Lake Victoria also increased potential output (Economist Intelligence Unit, 2008). Combined with the commissioning of thermal generating plants in 2006, and efforts to reduce technical losses and encourage energy conservation, this meant that the crisis became less severe in 2007-08. Since this time, the Government has also taken further steps to increase generation capacity in the medium term, including initiating the Bujagali Hydropower project—a 250 MW power generating facility that is planned for completion in 2011. The World Bank provided $360 million in loans and guarantees to help support this project.

33. **Although losses in Uganda are roughly comparable to losses in other countries in East Africa, they are far higher than in the other comparator countries.** Losses were slightly lower than in Burundi and slightly higher than in Rwanda and Tanzania. Many of these countries, however, were also facing serious crises in 2006. As a result, these countries are unlikely to be representative of losses in other countries. For example, losses in Uganda and other countries in East Africa are much higher than successful manufacturing economies in East Africa and Asia. Average losses were less than 2 percent of sales in China, Thailand and Malaysia—far lower than in Uganda even prior to the crisis. Moreover, less than half of firms reported any losses (e.g., median losses were equal to 0 in these countries). This gives firms in these countries a huge cost advantage over firms from Uganda. The high and increasing cost of electrical power, coupled with high losses due to outages will make if difficult for Ugandan firms to compete against firms from Asia and even from regional competitors such as Kenya, which has a slightly better situation in this respect.

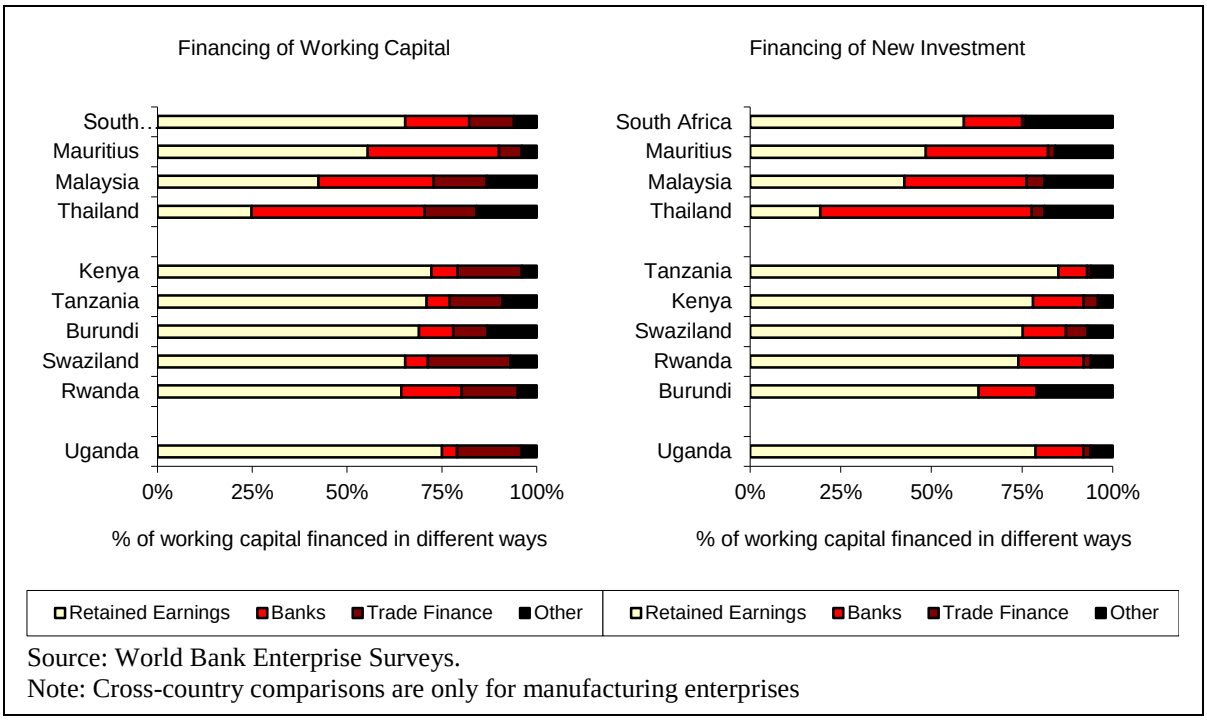
34. **Power is a problem in all of the cities covered in the Enterprise Survey.** Although there were some small differences in the extent to which power is a problem across cities in Uganda, the crisis affected firms in all regions. Firms in Mbale reported facing 8 outages per year, firms in Mbarare reported 9, firms in Kampala reported 11, firms in Jinja reported 12 and firms in Lira reported 14.

V. Access to Finance.[21]

35. **Access to finance was a less serious concern than power for both SMLE and microenterprise managers, but remained a significant concern**. Although far fewer firms said that access to finance was a serious problem than said the same about power, it was a significant concern for both microenterprise and SMLE managers. Over 70 percent of microenterprise managers (2nd most serious concern) and about 50 percent of SMLE managers (3rd most serious concern) said this was the case.

36. **Objective information on access to finance is consistent with the perception data, also**

Figure 7: SMLEs in Uganda use bank financing far less than firms in best performing countries although the difference with respect to other countries in the region is smaller.



Source: World Bank Enterprise Surveys.
Note: Cross-country comparisons are only for manufacturing enterprises

suggesting that access to finance is limited. SMLEs in Uganda do not finance much of their working capital or new investment with bank financing. On average, SMLEs report that they finance about 4 percent of their working capital needs with bank financing and about 13 percent of their new investment in the same way (see Figure 7). Although this is similar to Tanzania, it is slightly lower than in Kenya and the other regional comparator countries. As a result, firms are heavily dependent upon retained earnings, financing about three-quarters of the new investment and working capital in this way.

37. **SMLEs in Uganda use bank financing far less than in the comparator countries from outside of the region**. The difference with the other comparator countries, South Africa, Mauritius and the three Asian countries is considerably larger than the difference with other countries in the region. Firms in South Africa finance 17 percent of their working capital and 16 percent of their new investment with bank financing. Firms in Mauritius and the three Asian comparators finance over 30 percent of their working capital and over 34 percent of their new investment with bank financing.

38. **Other objective indicators of access to finance suggest a similar picture**. Only 17 percent of SMLEs in Uganda reported having a bank loan compared to about 16 percent in Tanzania, 21 percent in Kenya and over 50 percent in Mauritius, Thailand, China and Malaysia. Similarly, only 16 percent reported having an overdraft compared to 12 percent in Tanzania, 21 percent in Kenya, 29 percent in China and over 70 percent in Malaysia, Thailand and Mauritius. Overall, the objective indicator suggests that SMLEs in Uganda use bank financing slightly less than or about the same as SMLEs in other countries in the region. But

this is far less than in the best performing of the comparator countries. As in other countries, microenterprises have less access than SMLEs.

39. **Although fewer firms in Uganda reported having overdrafts in 2006 than in 2003, more firms reported having loans**. For the firms interviewed in both 2003 and 2006, firms were less likely to say that they had overdrafts in 2006 than they were in 2003 (23 percent compared with 33 percent).[22] They were, however, more likely to report having loans (32 percent compared with 23 percent). It is difficult, therefore, to definitively determine whether access to bank financing has improved or deteriorated since the earlier survey.

40. **The low level of access does not only reflect an inability to get financing—many firms did not want loans either because they did not need them or because they thought interest rates were unfavorable.** Firms that did not apply for a loan in 2005 were asked why they did not do so. The two most common reasons were that the firms did not need a loan and that interest rates were too high, with about one-third of firms saying that each was the main reason why they had not applied for a loan (see Table 2). About 12 percent said that collateral requirements were too high. Few firms gave other responses. Microenterprise managers were less likely to say that they did not need a loan, but more likely to say that interest rates were unfavorable (42 percent of microenterprise managers) and that collateral requirements were too high (21 percent).

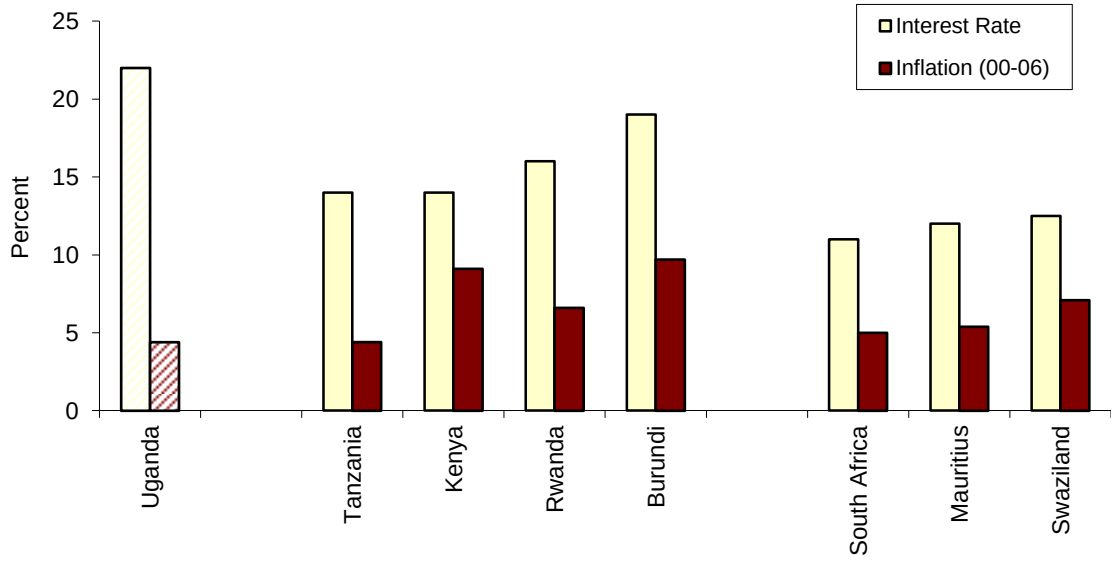
Table 2: Most firms that did not apply for a loan in 2005 said either that they did not need one or that interest rates were too high.

	Uganda				Kenya	Tanzania
	SMLEs	Micro	Already have loan	No Loan	SMLEs	SMLEs
No need for loan	37%	20%	37%	36%	38%	24%
Application procedures too complex	6%	8%		6%	9%	26%
Interest rates are not favorable	36%	42%	8%	37%	27%	20%
Collateral requirements too high	12%	21%		12%	14%	14%
Size or Maturity are insufficient	3%	5%		3%	3%	7%
Did not think it would be approved	2%	4%		3%	5%	3%
Other	4%	20%	56%	3%	5%	7%

Source: World Bank Enterprise Surveys.

41. **Concerns about high interest rates were far more pronounced in Uganda than in the other comparator countries**. It is possible to compare responses from firm in Uganda with responses from firms in other countries with recent surveys. One notable difference between Uganda and Tanzania and Kenya is that although a fairly significant number of firms in Kenya and Tanzania said that high interest rates were the main reason that they did not apply, they were less likely to say that they did not apply for a loan because interest rates were too high—37 percent of firms in Uganda gave this response compared to about 27 percent of firms in Kenya and 20 percent of firms in Tanzania (see Table 2). The same is true in most of the other comparator countries where a similar question was asked. Only 9 percent of firms in Swaziland and 15 percent of firms in Rwanda said high interest rates were the main reason why they did not apply for a loan in 2005. The one exception is Burundi, where about 30 percent of firms said high interest rates were the main reason why they did not apply. In this respect high interest rates appear to be a greater constraint in Uganda than in the other regional comparators.

Figure 8: Interest rates reported by firms are higher in Uganda than in other countries in the region.



Source: World Bank Enterprise Surveys and World Bank (2008b).
Note: Cross-Country Comparisons are for manufacturing enterprises only. Interest rates are median reported interest rates on most recent loan for firms in that country.

42. **The objective data is consistent with this—SMLEs in Uganda reported paying higher interest rates than SMLEs in other countries with comparable data**. Consistent with this, firms report paying high interest rates in Uganda (see Figure 8). The median firm reported interest rates of about 22 percent in Uganda and 13 percent of firms reported interested rates that were more than 30 percent per year.[23] In comparison, the median firms in other countries in the region reported nominal interest rates between 14 and 20 percent and the median firms in the countries with successful manufacturing sectors reported interest rates between about 11 and 13 percent.

43. **Although these results suggest that access to finance remains a concern in Uganda—and lending rates remain high—it is also important to note that the financial sector has been growing quite quickly in recent years**. During 2007, 37 new branches of financial institutions were introduced, increasing branches to 320. In addition, 63 new ATMs were added, resulting in a total of 328 ATMs countrywide. Continued rapid expansion appears likely in 2008.

44. **Despite this rapid growth, other studies suggest further reforms to the financial sector might improve access in the medium term**. A recent World Bank and Bank of Uganda Supervision Department (BOUSD) survey of banks and other credit institutions concluded that the main constraint to lending was weak financial sector infrastructure. In particular, the survey highlighted the following major issues:

- ***Land and mortgage bills***. The land and mortgage bills being considered by Parliament at the time of the survey presented major threats to creditor rights and

place additional burdens on the banks which, in combination, could result in a major reduction in lending.

- ***Commercial courts*.** Despite improvements in the functioning of the legal system as a result of the establishment of separate commercial courts, creditors still face long delays in being able to enforce debt contracts. This is also noted as a serious problem in the *Doing Business* report.[24]
- ***Land registry*.** Although improvements are starting to be made in the operations of the land register, banks still face delays in getting title information. The centralization of the registry in Kampala and a requirement that each transaction is valued for tax purposes contribute to these problems.
- ***Credit information*.** The unavailability of credit information continues to be a major problem. The opening of the Credit Reference Bureau (CRB) should reduce these concerns.
- ***Electronic transactions***. The ability of banks to expand access to financial services using technology (for example, telephone and internet) banking is being limited by the lack of a legal framework for electronic transactions.
- ***Business skills*.** As noted in the previous Bank of Uganda (BOU) survey, micro, small and medium-sized (MSME) access to credit is limited by a severe lack of basic business skills on the part of entrepreneurs.

VI. Informality[25]

45. **Although it was a lesser concern than power, access to finance and tax rates, many of the firms in the Enterprise Survey were concerned about competition with informal firms**. About 39 percent of SMLEs and about 48 percent of microenterprises said that competition from the informal sector was a serious constraint on doing business.

Impact on formal sector firms

46. **As in many other Sub-Saharan African countries, Uganda has a dynamic and growing informal sector**. According to the Uganda national survey 2002/3, about 1.8 million (36 percent) households operated an enterprise, many of which will be informal to some degree.[26] Moreover, many estimates suggest that the informal sector has been growing faster than the formal economy over the past decade. For example, the CEM notes that informal and household based employment has increased rapidly in recent years.[27]

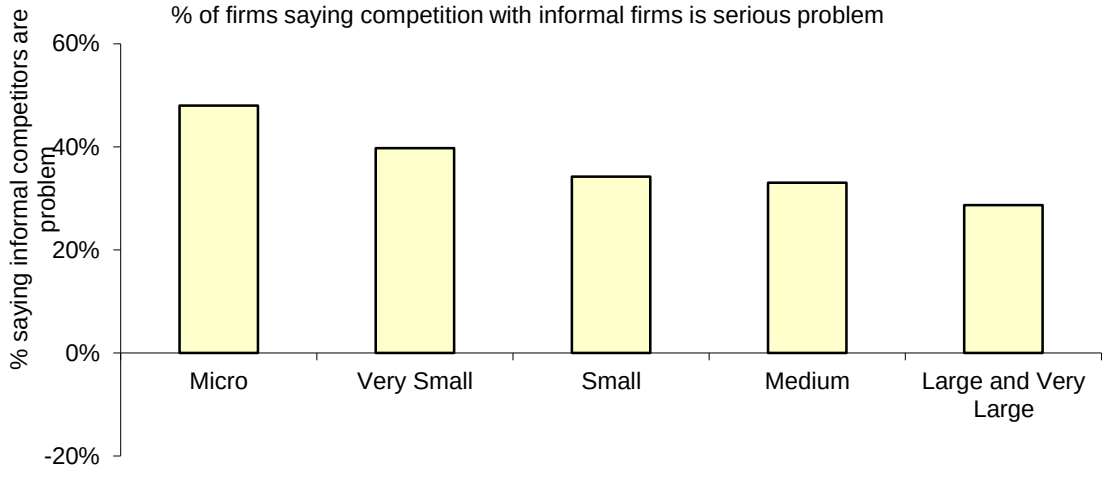
47. **Although informal enterprises can be useful in reducing poverty and encouraging entrepreneurship, informality poses some challenges for government**. Informal enterprises can play an important role in absorbing surplus labor and to help households cope with poverty and provide a cash supplement to subsistence farmers. One challenge is that informality can negatively impact government's ability to raise taxes and achieve social goals through regulation. Since informal firms evade some taxes, informality erodes the fiscal base, resulting in lower government revenues and a higher tax burden on formal firms that do comply with tax laws (see discussion in Chapter 6).[28] Although taxing the very smallest

enterprises (e.g., subsistence farmers) is not likely to raise significant revenues[29], tax evasion is a concern for slightly larger firms as seen by the high levels of evasion in Uganda.[30] Moreover, to the extent that informal firms do not comply with government regulations, it can undermine other government policies and ultimately reduce trust in the rule of law and government effectiveness.

48. **In addition to the challenge to government, informality can also be a problem for firms that pay their taxes and comply with government regulations**. Since informal firms avoid the cost of complying with these rules, they have an unfair advantage over formal firms that bear the cost of compliance. That is, inefficient firms can survive and even drive more competitive formal firms out of business by avoiding the costs associated with taxation and regulation.

49. **Given the size of the informal sector in Uganda, it is not surprising that competition from informal firms is a serious concern in Uganda, especially for small firms**. About 39 percent of SMLEs and about 48 percent of microenterprises (some of whom might also be informal) said that competition from the informal sector was a serious constraint on doing business. Microenterprises and very small firms were most likely to say that informality was a problem (see Figure 9).

Figure 9: Microenterprises and other small firms were more likely to complain about informal practices.



Source: World Bank Enterprise Survey.

50. **Significant numbers of large firms, however, also said that competition with informal firms is a problem.** More than one quarter of large and very large firms said that competition with the informal sector was an obstacle for their business. In part, this probably reflect growing problems with counterfeit goods in Sub-Saharan Africa. The Uganda National Bureau of Standards estimates that nearly one-third of consumer goods sold in the

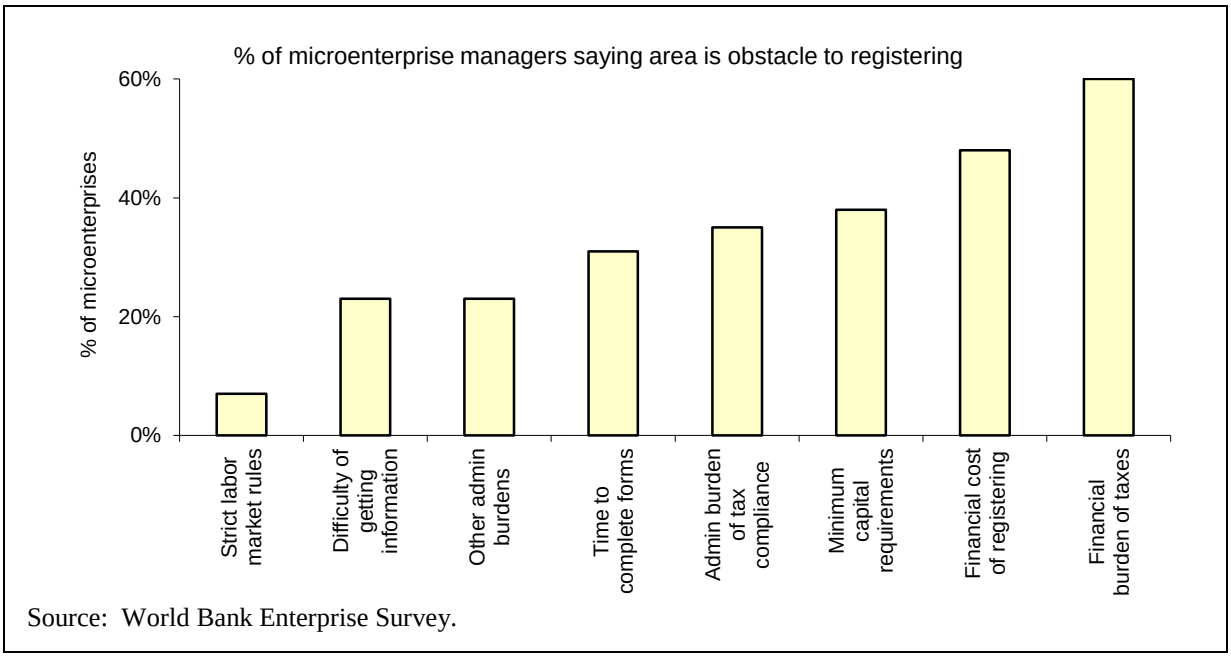
country could be fake. For some firms, the share is even greater. For example, it is estimated that about half of "Kiwi" shoe polish sold in Uganda is counterfeit.[31]

Reasons for Not Registering

51. **Concern about competition with informal firms reflects concern that informality confers financial benefits.** One way to look at the advantages of informality is to ask managers of informal firms why they remain informal. Because it is difficult to identify informal firms, it is interesting to look at the responses of all microenterprises—many of whom have the option of remaining informal. In practice, microenterprises that reported that they were unregistered had similar views about the barriers to becoming formal as microenterprises that reported that they were registered.

52. **The financial burden of taxes and the financial cost of registering appear to be the biggest deterrents to registering in Uganda.** Microenterprise managers were asked what they saw as the biggest barriers to becoming formal. The question was asked to managers who reported that their firm was registered and to those that reported their firm was not. By far, the most common concerns were financial barriers. About 60 percent of firms said that the financial burden of taxes was a serious barrier and about 48 percent said that the financial cost of completing registration procedures was a serious barrier.

Figure 10: Microenterprises were most likely to say that the financial burden of taxes and registration were serious barriers to registering.



Source: World Bank Enterprise Survey.

53. **Far fewer managers said that regulation was a serious problem**. Firms were far less likely to say that regulation was a serious barrier—only about 7 percent said that labor market rules were a serious barrier and only about 23 percent said that other administrative burdens such as inspections and meetings with government officials was a serious barrier.

The very low level of concern about labor regulations is consistent with the evidence that suggests that labor laws are relatively flexible in Uganda.

Problems facing informal enterprises

54. **Although there are some advantages to being informal, informal firms face some problems that formal firms can avoid**. By avoiding the full burden of regulation and evading some taxes, informal enterprises can have an unfair advantage when competing with formal enterprises. But in other ways, they can also be disadvantaged. They often find it harder to get access to finance, infrastructure, and other government services. Moreover, many are competing in highly competitive, low-margin areas.

55. **To fully understand the challenges facing informal firms, it is necessary to have a clear definition of informality and to have a clear, unambiguous way of assessing whether a firm is formal or informal**. In practice, this is hard to do (see Chapter 8 in Volume 2 for a full discussion). Because of this, rather than relying on a single definition of informality, several approaches are used to look at informality. In addition to ensuring that results are not highly dependent on a single definition of informality, this recognizes that informal behavior lies along a continuum rather than being a single dimension. As discussed above, many 'informal' firms will be formal in some ways (e.g., registered with the municipality even if unregistered with the company registrar) and many 'formal' firms will evade some regulatory requirements.

56. **Unregistered microenterprises are different from registered microenterprises in many of the same ways that microenterprises are different from SMLEs**. In particular, unregistered microenterprises are less likely to have audited accounts than registered microenterprises, and registered microenterprises are less likely to have audited accounts than SMLEs (9 percent, 12 percent and 51 percent respectively). Similar patterns hold for age, with firms that are less formal being younger, less likely to own their land, have less well educated managers and use technology less intensively (see Table 3). In general, there is little difference in the burden of regulation or tax evasion between SMLEs and registered microenterprises, but both are different from the unregistered microenterprises.

57. **SMLEs are more likely to have access to finance than microenterprises—they are more likely to have a bank account and more likely to have a loan or overdraft (see Table 3)**. Although registered microenterprises are more likely to have a bank account than unregistered microenterprises, they are no more likely to have a loan or overdraft than unregistered microenterprises.[32] In practice, few firms of either type (only about 10 percent) have bank credit. And many of these are probably personal loans to the owners, who are mostly sole proprietors, rather than business loans per se. These results, however, suggest that it seems unlikely that the prospect of a microenterprise getting a loan improves significantly upon becoming registered. As a result, it is unlikely that this encourages formality significantly in Uganda. Since getting a loan is often one of the main incentives that firms might have to register, this is discouraging.

Table 3: Differences between SMLEs, registered microenterprises and unregistered microenterprises.

	SMLEs	Registered micro-enterprises	Unregistered micro-enterprises
Firm Characteristics			
Has audited accounts (% of firms)	51%	12%	9%
Age (years, average)	12	9	8
Owns land (% of firms)	30%	18%	14%
Manager has university education (% of firms)	54%	32%	24%
Annual value added per worker (median, US$)	$1,854	$1,320	
Annual wage cost per worker (median, US$)	$817	$627	
Technology Use			
Uses e-mail (% of firms)	31%	24%	6%
Infrastructure			
Has generator (% of firms)	29%	18%	14%
Uses own transportation (% of firms)	33%	36%	14%
Finance			
Has bank accounts (% of firms)	86%	79%	60%
Has loan or overdraft (% of firms)	27%	9%	11%
Tax and Regulation			
% of revenue reported to tax authorities (average)	53	52	27
Says 'firms like theirs' pay bribes (% of firms)	51%	67%	65%
% of time top managers spend dealing with regulations (average)	6	6	4

Source: World Bank Enterprise Survey

Note: Value-added is not available only for firms in the manufacturing sector. Because of the small number of microenterprises, this can not be estimated for registered and unregistered separately.

58. **Finally, infrastructure appears to be a more serious problem for microenterprises than for SMLEs**. Although the differences in the number of outages and losses during transportation between registered microenterprises, unregistered microenterprises, and SMLEs were small and statistically insignificant, access does appear to be a more serious problem for microenterprises. In particular, more informal firms were less likely to provide their own infrastructure to make up for inadequate infrastructure—they were less likely to have a generator and were less likely to have their own transportation. In this respect, problems related to infrastructure are likely to be a more serious problem for microenterprises in general and informal microenterprises in particular than they are for other firms.

VII. Taxation[33]

59. **Tax rates and, to a lesser extent, tax administration were also serious concerns for firms in Uganda**. SMLEs were more likely to say that tax rates were a problem than any other area of the investment climate other than power. Even microenterprises, many of whom appear to evade at least some of their tax liability, were concerned about tax rates—microenterprises were more likely to say that tax rates were a problem than any area except electricity and access to finance. Although tax administration was less of a concern than tax rates, it still ranked as the fifth greatest concern for both SMLEs and microenterprises, with about 25 percent of both types of firms saying it was a serious problem.

- *Tax Rates*

60. **Although many firms said that tax rates were a serious obstacle, tax rates do not appear to be particularly high in Uganda.** *Doing Business* calculates the total tax rate for a representative firm in each country.[34] This is the amount of corporate taxes and other taxes that this representative firm would pay after accounting for deductions and exemptions. Uganda compares favorably with the comparator countries on this measure. The total tax rate 34.5 percent of profits in Uganda—lower than in any of the comparators except for Mauritius (22.2 percent), Rwanda (33.7 percent), and South Africa (34.2 percent). Other tax rates such as value-added tax (VAT) rates do not appear to be particularly high either.[35]

61. **There are, however, other reasons why concern about tax rates might be high**. One important point is that firms typically are very concerned about tax rates—tax rates have ranked among the top concerns in more than half of enterprise surveys. Although this emphasizes that concern about tax rates is common throughout the world, other evidence suggests that concern is particularly high in Uganda. Among the comparator countries, firms were more likely to say that tax rates were a serious problem only in Kenya.

62. **The efficiency of government spending might also negatively affect perceptions about tax rates in Uganda**. Firms might be dissatisfied with tax rates because they are concerned that they do not get value for money from their taxes. That is, firms are more likely to be concerned about tax rates when they feel their tax payments are being used efficiently by the Government. In a recent worldwide study, Uganda compared poorly with respect to both regulatory quality and government effectiveness, ranking below the median for both.[36]

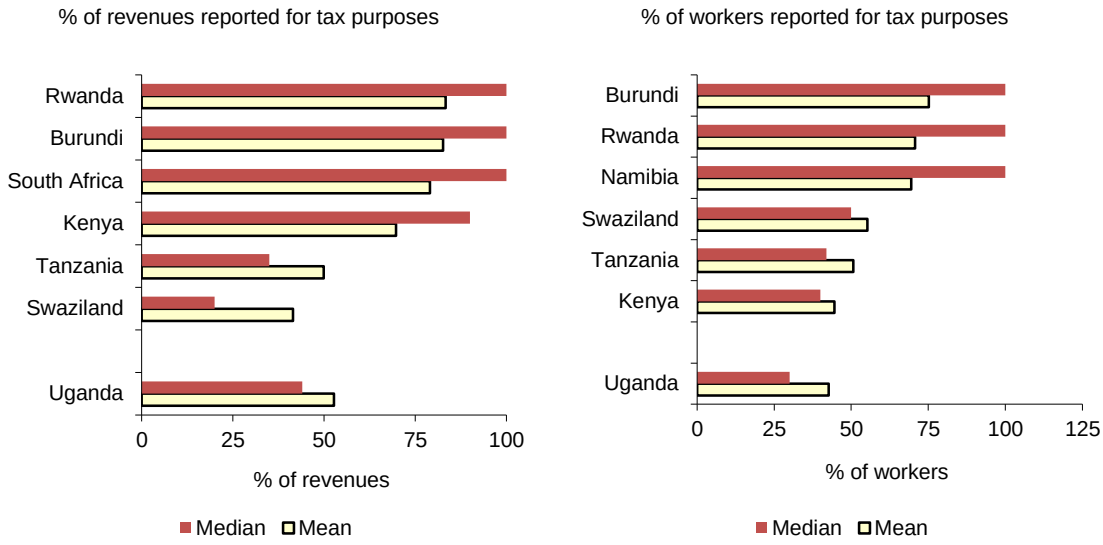
63. **Another possibility is that some managers' concerns about tax rates might reflect concern about the impact that tax rates have on their firms' competitiveness rather than their concern about the actual level of taxes.**[37] If managers feel that tax rates make it difficult for them to compete with informal firms or formal competitors that evade taxes, then this could affect perceptions about tax rates. That is, firm managers might be happy about paying taxes when they feel that other firms do the same—not just the manager's own firm.

64. **Consistent with the idea that this is problem in Uganda, evasion seems to be high and increasing (see Figure 11)**. The average firm manager said that 'firms like theirs' reported about 50 percent of revenues to the authorities for tax purposes (median reported is 46%). Reporting was even lower for workers, with the average firm manager saying that 'firms like theirs' reported only 43 percent of workers for tax purposes (median reported is 30%). Both of these are low compared to the comparators. Moreover, tax evasion appears to have increased since 2003.

65. **In summary, although many firm managers in Uganda report that high taxes are a significant problem for them, an objective analysis shows that tax rates are not particularly high.** There are, however, several possible reasons for the high level of concern. First, tax rates typically rank among the top concerns in most countries where Enterprise Surveys have been completed. Second, government effectiveness and regulatory quality remain low, meaning that firms might not believe they are getting value for money with respect to taxes. Finally, tax evasion appears to be relatively high in Uganda—and has

possibly increased since the 2003 survey. This can increase concern about tax rates since firms that do pay their taxes have to compete with firms that evade them.

Figure 11: Firms in Uganda report less revenues and workers to tax authorities than in most of the comparator countries.



Source: World Bank Enterprise Surveys.
Note: Cross-country comparisons within Africa include all firms not just manufacturing firms.

- *Tax Administration*

66. **Although firms were concerned about tax administration, it did not rank among the very top concerns in the Enterprise Survey.** Tax administration was less of a concern than tax rates, power, access to finance and competition with the informal sector. It did, however, rank as the fifth greatest concern for both SMLEs and microenterprises, with about 25 percent of both types of firms saying it was a serious problem. This is far lower than the top constraints and about the same as other concerns such as corruption, transportation and macroeconomic instability.

67. **Objective data from the Enterprise Survey on tax administration suggests that the burden of tax administration is roughly comparable with the burden in the comparator countries**. Managers in the Enterprise Survey were asked how many visits or required meetings the firm's management had with tax officials. The average firm reported about 3 meetings—higher than in some countries but far lower than in many others. For example, the average firm in China reported 14 meetings.

68. **Data from the *Doing Business* report also suggests that the burden of tax administration is comparable to the burden in the comparator countries**. For a representative enterprise, the report estimates the firm has to make 32 tax payments and that it would take about 222 hours to complete these requirements. Again, this is somewhere near the average for the comparator countries. Overall, the evidence from the Enterprise Surveys and the *Doing Business* report suggest that although the burden of tax administration is not

particularly high, it is also not particularly low. The number of procedures (33 to 32) and the time to complete tax forms (237 hours to 222 hours) have been reduced since the 2003 Enterprise Survey

VIII. Transport[38]

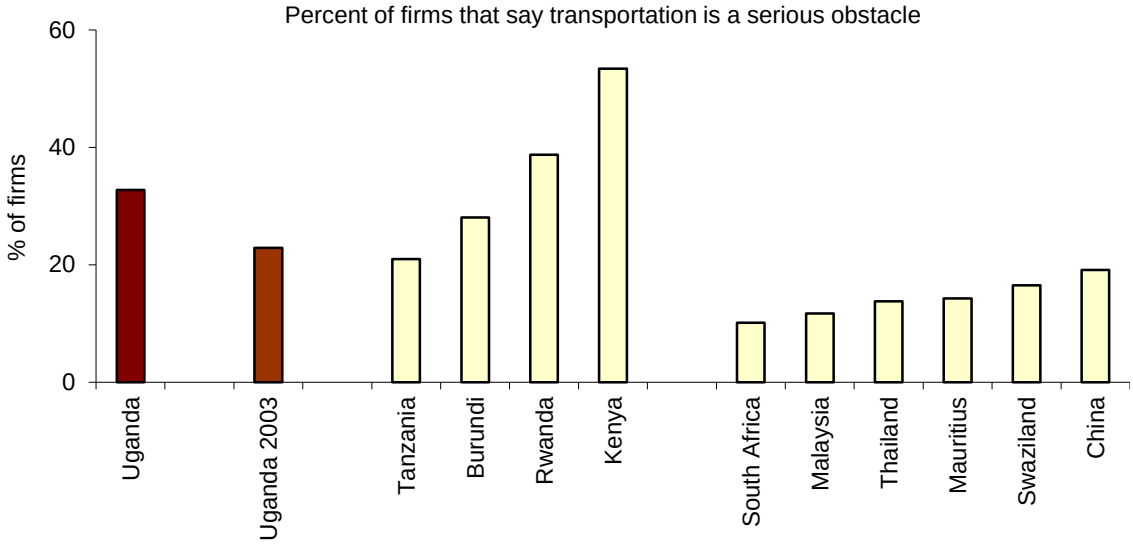
69. **Although transportation was not among the very top concerns, a significant number of firms said that it was a serious problem.** Almost a quarter of SMLE and microenterprise managers in Uganda said that transportation was a serious obstacle. In general, exporters were no more likely to say that transportation was a serious obstacle than non-exporters.[39] This could be because they have invested more in overcoming these problems. Consistent with this interpretation, exporters were more likely to provide their own transportation.[40]

70. **Moreover, concern about transportation appears to be increasing**. Even after controlling for differences in the two samples, SMLEs appear more likely to say that transportation was a problem in 2006 than in 2003. This is a sharp contrast to other areas of the investment climate, where concern has fallen—possibly due to the power crisis overshadowing these other concerns.

Transportation Infrastructure

71. **Transportation costs are high in Uganda especially for international trade**. Because Uganda is landlocked and hilly, transport infrastructure needed to be highly efficient to offset the geographic disadvantages. This, however, is not the case. The *Country Economic Memorandum* noted that transport costs were very high and could sometimes equal almost 50 percent of the value of goods depending on bulkiness and weight.[41] Similarly, during field interviews for the Investment Climate Assessment, some exporters noted that they often had to use air transportation for export goods due to poor infrastructure and long delays getting goods through Kenya.

Figure 12: More firms are concerned about transportation in Uganda than in most comparator countries.



Source: World Bank Enterprise Surveys.
Note: Cross-country comparisons are for manufacturing firms only.

72. **Given high transportation costs and the poor quality of road and rail infrastructure, it is not surprising that transportation was a serious concern for many firms in Uganda**. Concern was higher than in most of the successful manufacturing economies (see Figure 12)—even when compared to landlocked countries such as Swaziland. With the exception of China, between 10 and 15 percent of SMLEs said that transportation was a serious obstacle in the comparator countries outside of East Africa. Uganda compared more favorably with other countries in the region. In particular, firms in both Rwanda and Kenya were more likely to say that transportation was a serious problem than in Uganda.

International Transportation

73. **Few firms in Uganda export**. Only about 20 percent of Ugandan SMLEs in the manufacturing sector export—far fewer than in most of the comparator countries that have successful manufacturing industries. Close to half of SMLEs in Kenya and more than half of SMLEs in South Africa, Mauritius, Thailand and Malaysia export. Even in China about one-quarter of the manufacturing firms export—very high considering that firms in countries with large domestic market are far less likely to export than firms based in smaller markets. Uganda compares more favorably with nearby land-locked countries such as Burundi (5 percent of firms) and Rwanda (about 28 percent of firms).

74. **Most SMLEs that do export do so to neighboring countries**. The most common export destinations for the mostly small and medium-sized manufacturing firms in the Enterprise Survey are nearby countries such as Rwanda, the Democratic Republic of Congo, Kenya and Sudan. Only about one-third of manufacturing SMLEs that export, export overseas to developed economies in Europe, Asia or North America.

75. **Although many factors might discourage exporting, poor transportation infrastructure might be an important obstacle to exporting**. Low productivity and high unit labor costs in particular are likely to make it difficult for Ugandan SMLEs to enter foreign markets. But transportation costs might also play a role

76. **One particular problem is that the cost of exporting is high**.[42] The financial costs of exporting and importing containers of standardized goods are higher for firms in Uganda than in any of the comparator countries except for Rwanda (see Table 4). The cost is about three times as high as in Tanzania, 50 percent higher than Kenya and between about four and six times higher than in the successful manufacturing countries in Asia. For example, the standardized container costs about $450 to export from China and $460 to export from Malaysia.

77. **In addition to being costly in monetary terms, it is also time consuming to export goods from Uganda**. It takes about 39 days to complete all export procedures in Uganda—slightly less than in Rwanda or Burundi (42 and 47 days respectively), but far more than in the successful manufacturing countries in Asia and Sub Saharan Africa (mostly between 14 and 21 days). Given the long delays and the high cost associated with importing and exporting, it is not surprising that Uganda ranks poorly on this indicator in the Doing Business report (see Table 4), 145th in the world. Although this compares favorably with most of the other countries in the region (e.g., Kenya, Rwanda, or Burundi), it compares unfavorably with the countries in East Asia.

Table 4: Doing Business indicators for Uganda and comparator countries for trading across borders.

	Rank	Documents for export (number)	Time for export (days)	Inland transport Cost (US$)	Cost to export (US$ per container)	Documents for import (number)	Time for import (days)	Inland transport Cost (US$)	Cost to import (US$ per container)
Uganda	145	6	39	$2,500	$3,090	7	37	$2,500	$3,290
Tanzania	103	5	24	$200	$1,262	7	31	$200	$1,475
Kenya	148	9	29	$900	$2,055	8	26	$950	$2,190
Rwanda	168	9	42	$2,300	$3,275	10	42	$4,000	$5,070
Burundi	170	9	47	$1,600	$2,147	10	71	$3,200	$3,705
Thailand	10	4	14	$220	$625	3	13	$220	$795
Mauritius	20	5	17	$100	$725	6	16	$100	$677
Malaysia	29	7	18	$165	$450	7	14	$165	$450
China	48	7	21	$95	$460	6	24	$135	$545
South Africa	147	8	30	$814	$1,445	9	35	$900	$1,721
Swaziland	154	9	21	$1486	$2,184	11	33	$1486	$2,249

Source: World Bank (2008a).

78. **It is important to note, however, that Uganda's landlocked location means that Ugandan SMLEs are heavily dependent upon infrastructure in neighboring countries for exporting overseas**. Not all constraints to exporting are purely internal. The CEM notes many problems with Kenya's infrastructure, including the poor performance of the Port of Mombasa, the poor rail link from Mombasa to Kampala, and the roads and vehicle inspection points from the border to Nairobi.[43] In particular, the CEM notes that freight costs are higher for the Kenya portion of the trip than for the leg within Uganda.

79. **The most time consuming and costly procedure is inland transportation and handling—including the cost of transporting goods through Kenya**. This accounts for about five-sixths of the cost of exporting and accounts for nearly half the time. In part, this reflects the long distance that goods need to be transported. But it also reflects the poor quality of infrastructure and the high logistical cost.

Table 5: Most of the cost of exporting is related to inland transportation and handling.

Nature of Export Procedures	Duration (days)	US$ Cost
Documents preparation	9	180
Customs clearance and technical control	6	35
Ports and terminal handling	6	375
Inland transportation and handling	18	2500

Source: World Bank (2008a).

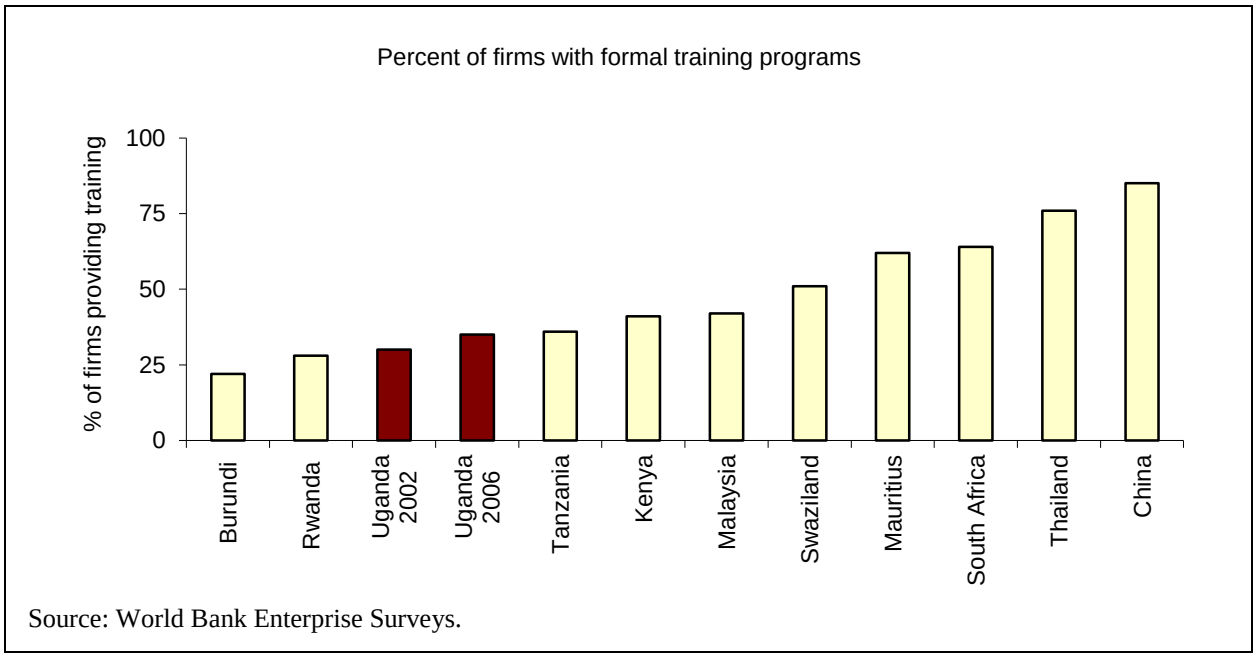
IX. Worker Skills[44]

80. **Few managers were worried about worker education and skills**. Only about 9 percent of managers of manufacturing SMLEs reported that inadequately educated workers were a major or severe obstacle in Uganda. About twice as many managers reported that worker education and skills were a serious problem in neighboring Rwanda and Tanzania and nearly three times as many did so in Burundi. Managers in the comparator countries, such as Thailand, China, South Africa, and Mauritius, that have successfully diversified into export-oriented manufacturing were even more likely to say that worker education and skills were a problem—between 25 and 45 percent of SMLE managers said it was a serious constraint in these countries.

81. **Moreover concern about worker education and skills appears to have fallen in Uganda since 2003**. About 30 percent of SMLE managers said that worker education was a problem in the 2003 survey. The decline in concern does not appear to be simply due to differences in sampling between the 2003 and 2006 surveys. It is natural, therefore, to ask why SMLEs are less concerned about worker education in Uganda than in the comparator countries and to ask why they appear to have become less concerned about worker skills in recent years.

82. **The low and falling level of concern does not appear to be because there is a surplus of skilled workers in Uganda**. A higher proportion of SMLEs report that their typical worker has 6 or less years of education in Uganda than in any of the comparator countries for which similar data are available except Burundi. Moreover, it does not appear that worker education and skills have increased since the 2003 survey. The median worker in the 2003 worker survey had a secondary education, five years of tenure and four years of prior experience.[45] This is fairly close to the average worker in the 2006 survey, who had a secondary education, four years of tenure and six years of prior experience. Finally, returns to education appear to be low in Uganda. An extra year of schooling increases earnings by about 3 to 5 percent—on the lower end of the distribution of returns to schooling found in other developing countries.[46] If there was high demand for educated workers, returns to education would be higher.

Figure 13: Few firms provide training in Uganda.



Source: World Bank Enterprise Surveys.

83. **It also does not appear to be because firms make up for the low level of education and skills by providing significant on-the-job training**. Manufacturing SMLEs in Uganda are less likely to provide on-the-job training than similar firms in the comparator countries (see Figure 13). Only one out of three SMLEs provides training in Uganda, compared to over 70 percent of SMLEs in Thailand and China and over 60 percent in South Africa and Mauritius. Only Rwanda and Burundi have a lower share of SMLEs that provide training. Moreover, the share of firms providing training does not appear to have increased significantly since the 2003 survey.

84. **Together the evidence suggests that the low level of concern about worker skills—and the shift in concern between the two surveys—is unlikely to be due to improvements in workers skills either due to the availability of skilled workers in Uganda in 2006 or to increased effort at skills development.** There has not been enough time for a rapid rise in the stock or quality of education or for an adjustment in the input mix since earlier surveys. The most reasonable explanation for the low level of concern about workers skills is that in an environment of poor quality infrastructure, skills constraints might not be a major constraint to firms.[47] As the constraint due to infrastructure is lessened, however, it is likely that worker education and skills will become increasingly binding.

X. The Burden of Regulation[48]

85. **Another area of the investment climate that few firm managers said was a problem was regulation.** That is, few firms said that the specific areas of regulation asked about on the Enterprise Survey were serious obstacles to their firms' operations. Only about 15 percent of SMLE managers said that business licensing and registration was a serious problem, only

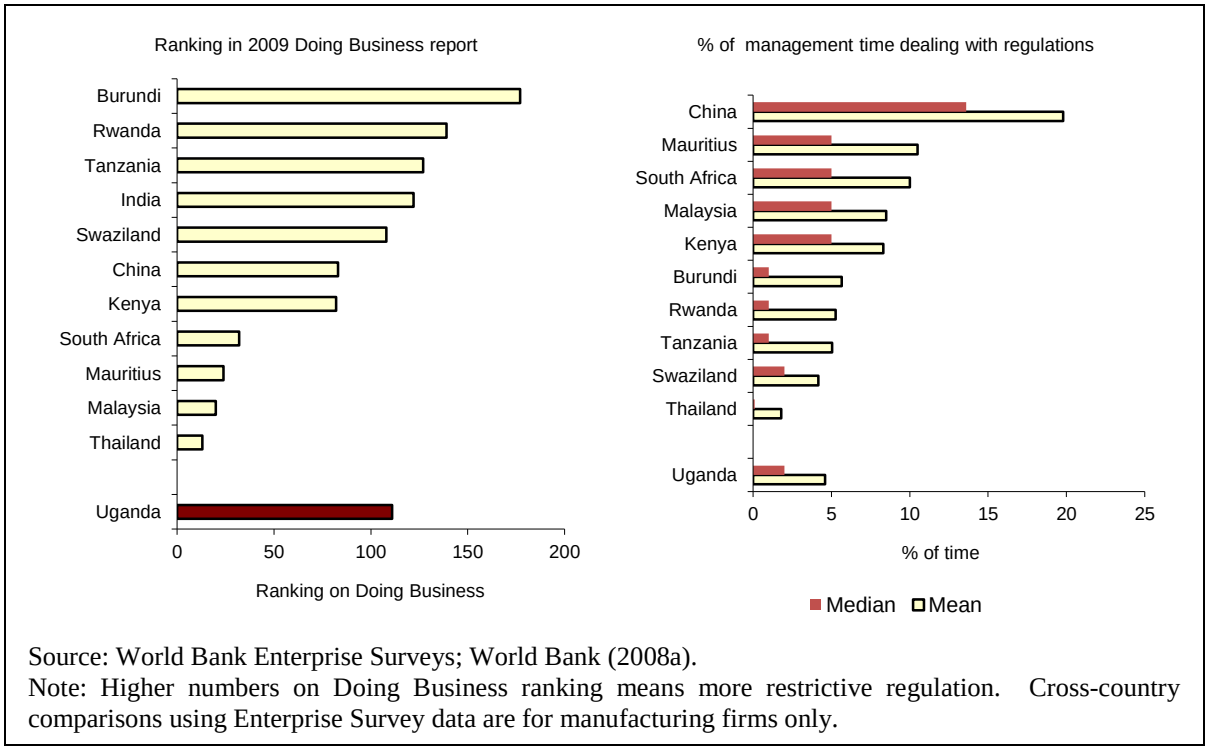
about 10 percent said that customs and trade regulation was a serious problem, and only 1 percent said labor regulation was a serious problem.

86. **Objective measures also suggest that the burden of regulation is not particularly high in Uganda**. Managers in Uganda reported spending an average of slightly less than 5 percent of their time dealing with regulatory requirements in Uganda. The median manager reported spending only 2 percent of their time doing this. Although higher than in the best performing countries it was lower than in many of comparator countries (see Figure 14).

Objective measures of regulation

87. **Uganda compares less favorably, however, with respect to the content of regulation**. The World Bank's *Doing Business* report collects detailed information on laws and regulations in a variety of areas in 179 countries throughout the world and ranks the countries mostly based upon the content of the law.[49] It compares regulations for a representative business in the main commercial city in each country (Kampala for Uganda). Uganda ranks 111th out of 179 countries in the Doing Business report. This is slightly better than three neighboring countries—Tanzania, Burundi and Uganda. It is, however, worse than most of the successful manufacturers (see Figure 14). For example, Thailand ranks 13, Malaysia ranks 20, Mauritius ranks 24 (the highest ranked country in Sub-Saharan Africa), and South Africa ranks 32 (the second highest ranked county in Sub-Saharan Africa). Uganda's less favorable ranking on the Doing Business report than the objective indicators from the Enterprise Survey might suggest probably reflects a divergence between laws and regulations on the books and the way in which those regulations are implemented.

Figure 14: Although Uganda compares favorably with many of the comparator countries with respect to the burden of regulation—especially in the region—there is room for improvement.

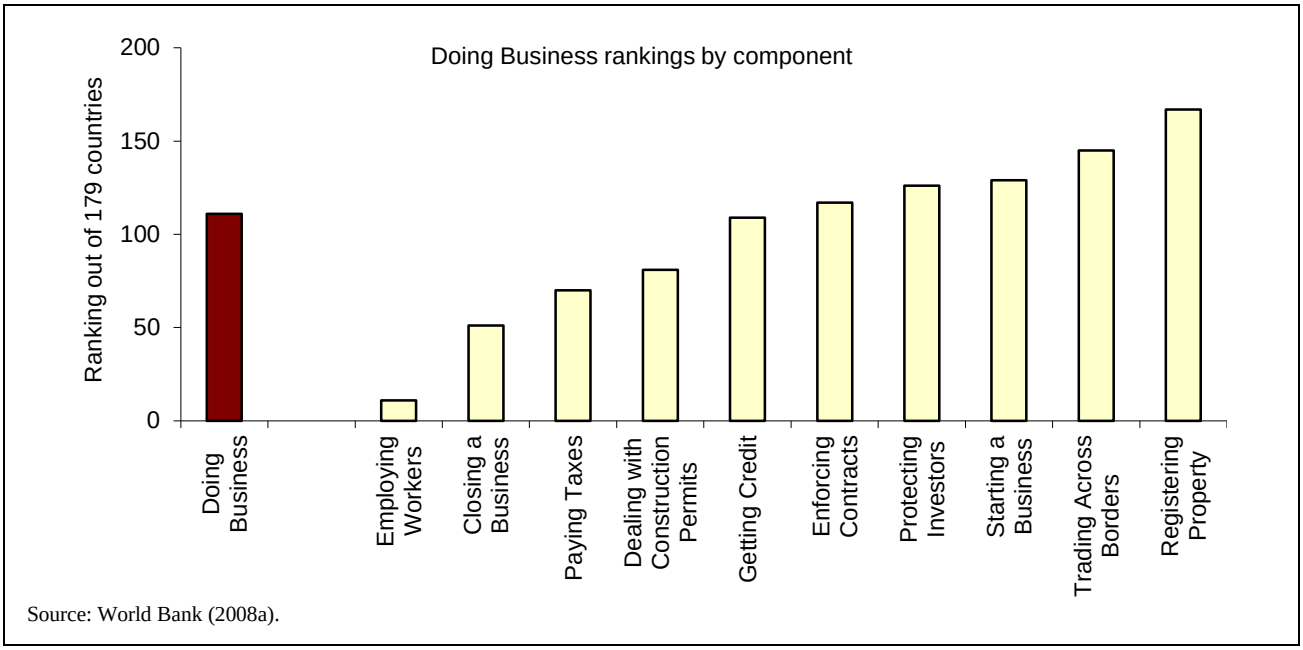


Source: World Bank Enterprise Surveys; World Bank (2008a).
Note: Higher numbers on Doing Business ranking means more restrictive regulation. Cross-country comparisons using Enterprise Survey data are for manufacturing firms only.

88. **Uganda compares very unfavorably on specific components of regulation included in *Doing Business*.** Doing Business ranks countries in each area that the report covers. Uganda ranks 167th out of 179 countries with respect to registering property, ranks 145th with respect to trading across borders, and ranks 129th with respect to starting a business. Trading across borders is discussed above in the section on transportation, while the other two measures are discussed below in the section on regional differences in regulation.

89. **In contrast, Uganda compares very favorably with other countries with respect to labor regulation.** On one measure, labor regulation, Uganda compares very favorably ranking 11th in the world. It is probably not surprising therefore that very few firms said that labor regulation was a serious constraint (only 1 percent of SMLEs and 3 percent of microenterprises).

Figure 15: Although Uganda compares favorably with other countries on some components of the Doing Business indicators, it compares less favorably on others.



Source: World Bank (2008a).

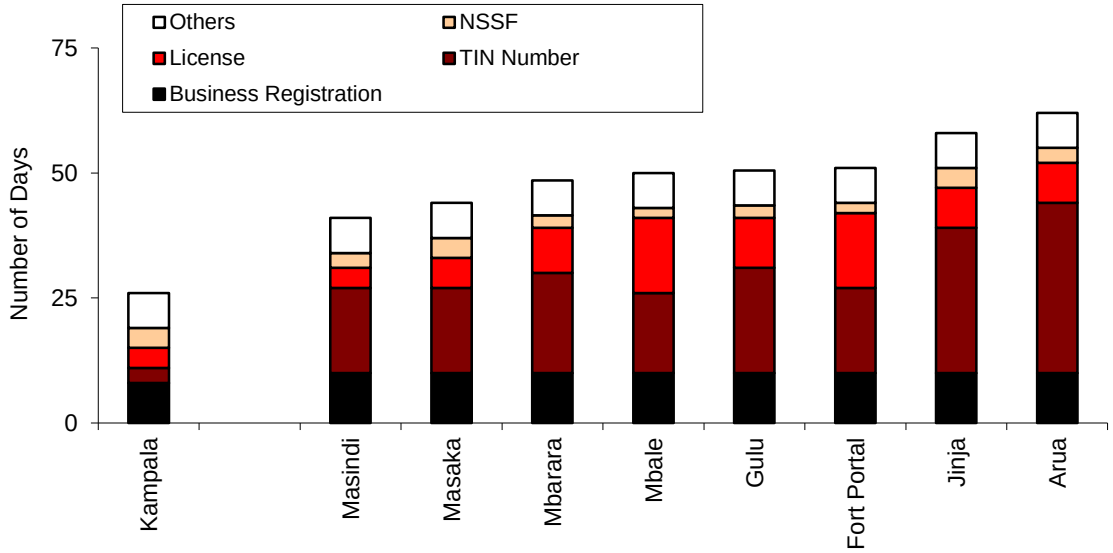
90. **The burden of regulation has been reduced since the previous Enterprise Survey—although regulation did not rank among the top concerns in the previous survey either**.[50] The number of days to start a business has been reduced from 34 to 25 and the cost has fallen from 123.2 percent of per capita Gross National Incomes (GNI) to 100.7 percent. Similarly, the cost of dealing with construction permits has fallen (from 945 percent of per capita GNI to 704 percent), Uganda's labor laws have become less restrictive, and the number of procedures (33 to 32) and the time to complete tax forms (237 hours to 222 hours) have been reduced. On two other indicators—registering property and closing a business—there have been some improvements and some declines. Despite the improvement since 2003, there is room for further improvements on most of the measures.

Regional analysis of regulatory procedures[51]

91. **Although the Doing Business report focuses on Kampala, there are often significant differences in regulatory procedures across regions**. The *Doing Business* report collects information on various regulatory requirements in the main commercial city in each country covered by the report (Kampala for Uganda). Even when regulations are uniform across the country, differences in implementation can mean that the burden varies significantly between regions. As a complement to the analysis included in the *Doing Business* report, the Investment Climate Assessment looks at two of areas of regulation where Uganda performs poorly in the Doing Business report—starting a business (129th out of 179 countries) and licensing property (167th)—in more detail for a number of cities in Uganda.[52]

92. **The total time to complete the procedures to start a business outlined in the *Doing Business* report varies quite significantly between cities (see Figure 16) and is often longer for the cities outside of Kampala covered in the analysis**. Since many of the procedures are centralized in Kampala—including business registration and the issuance of Tax Identification Numbers (TINs)—it takes longer to complete most procedures for firms located outside of Kampala (between 40 and 61 days outside of Kampala compared to 25 days inside Kampala). This would have a significant impact on the Uganda's relative ranking on this measure. Based upon the numbers for Kampala, Uganda ranks 129th out of 179 countries. Based upon the time it takes to complete these procedures outside of Kampala, Uganda's ranking would fall to between 143rd and 148th in the world. The additional cost of transportation to the capital—where some procedures have to be completed—would further affect Uganda's position if based upon secondary cities.

Figure 16: The time it takes to start a business varies among cites and is greater outside Kampala.



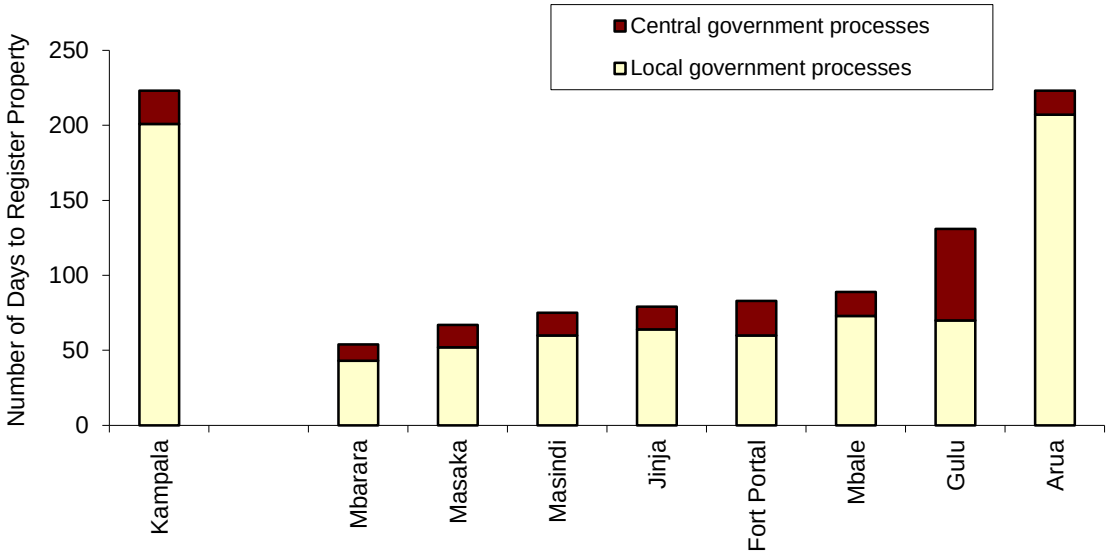
Source: World Bank Sub-National Doing Business report for Uganda
Note: Data were not collected on some procedures listed in the Doing Business report (procedures 9-12 related to tax registration and procedure 18 related to getting a company seal. These procedures, included as 'others' above took 6 days in Kampala in 2008. It was assumed that they would take a similar length in the other cities.

93. **In contrast to starting a business, which was quicker in Kampala than in the other cities, the time to register property was slower in Kampala than in most other cities (see Figure 17)**. In most of the cities, it took between about 50 and 100 days to complete all procedures.

94. **One difference between property registration and starting a business is that most of the procedures related to property registration are handled by the local government**. The processes handled by local government generally took longer to complete than the processes handled by the central government. In most cities, the processes handled by local government accounted for between about 80 to 90 percent of the time it takes to register property.

95. **The main difference between Kampala and the other cities relates to the valuation of property for transfer purposes—a local government procedure**. The *Doing Business* report estimates that it takes about 5 to 7 months to complete this in Kampala. In the other cities, it was estimated that this procedure generally took between about 10 and 40 days—significantly less than in Kampala.

Figure 17: It takes longer to register property in Kampala than in most of the other cities.



Source: World Bank Sub-National Doing Business report for Uganda.

96. **In summary, there are significant differences across Uganda, with the burden of regulation often being greater in the outlying cities covered in the analysis than it is in Kampala, the city covered in the *Doing Business* report.** In particular, when procedures require that the local regulatory entity that is the contact point for the procedure outside of Kampala has to interact with central authorities in Kampala, there can be significant delays in the other cities. The cost of complying can also be greater in outside cities when the entrepreneurs have to go to Kampala themselves to complete the procedures (e.g., to deal with company registration).

97. **But it is not always the case, however, that procedures take longer outside of Kampala**. For example, most of the procedures associated with registering property are done by agencies associated with local, not central, government. Overall, it takes longer to complete the procedures in Kampala than it does in many of the towns outside of Kampala. It also takes more time to get a power or water connection in Kampala than in some of the other towns.

SUMMARY AND POLICY RECOMMENDATIONS

98. **Uganda compares favorably with the comparator countries in some areas of the investment climate, especially when compared to other countries in the region.** In addition to the positive macroeconomic environment with respect to stability and growth, the burden of regulation is relatively low and Uganda compares particularly favorably in the area of labor regulation. Tax rates are comparable with other countries and the burden of tax administration is reasonable.

99. **Significant progress has been made in some areas of the investment climate since the 2004 Investment Climate Assessment**. Tax administration has been improved and red tape has been cut. The burden of labor regulation, which was already low, has been reduced and trade and customs administration have been improved. Finally, although petty corruption remains a concern, Uganda has improved its rankings in other areas of governance such as rule of law, regulatory quality and government effectiveness.

100. **This progress does not reduce the need for further reform and the 2007 Enterprise Survey emphasizes that many areas of the investment climate could be improved**. The biggest problem is the poor performance of the power sector. Firm managers were most likely to say that power was a serious problem to the business operation. The objective data supports that idea that the poor performance of the power sector imposes a particularly large burden on firms. On average, firm managers reported losses equal to close to 9.5 percent of sales due to power outages (see Table 6). In comparison, the *Doing Business* report estimates that taxes are equal to about 7 percent of sales for a representative firm in Uganda.

Table 6: Losses due to various investment climate problems in Uganda

	Average cost per firm	Cost for median firm
Losses due to power outages (% of sales)	9.5	5.0
Bribes and unofficial payments (% of sales)	2.7	0.0
Losses due to theft and breakage during transportation (% of sales)	0.9	0.0
Security costs (% of sales)	0.7	0.1
Losses due to crime (% of sales)	0.2	0.0
Cost of exporting (% of shipment value)	8.5	5.0
Memorandum Items from *Doing Business* report:	Cost	Cost as % of sales
Starting a Business (one-time cost)	100.7	1.0%
Taxes (annual cost)	34.5	6.9%

Source: World Bank Enterprise Survey; World Bank (2008a).
Note: Outliers (values that are more than 3 standard deviations from the mean) are dropped when calculating averages. Since less than half of firms report losses due to crime and bribe payments the median is zero.

101. **Other costs related to a weak investment climate are also high in Uganda**. On average, firms estimate that they spend an amount equal to about 2.7 percent of sales on

bribes and unofficial payments to public officials, that losses due to theft and breakage during transportation are equal to 0.9 percent of sales, that security costs are equal to 0.7 percent of sales and that losses due to crime are equal to about 0.2 percent of sales. The average exporter estimates that the cost to clear all port procedures including payments to clearing agents, storage fees, container handling fees and informal payments to custom officials was equal to about 8.5 percent of consignment value for a typical consignment.

102. **Although these estimates provide information on some costs, it is very difficult to quantify other costs.** Problems with access to finance and high interest rates make it difficult for firms to invest more than they can finance from their own resources. A high level of informality means that formal firms have to compete with informal firms that evade taxes and avoid the burden of regulation. Firms remain in low value added, labor intensive areas of production. Finally, although wages are low in Uganda, productivity is even lower (i.e., unit labor costs are high) and, as a result, it is difficult for Ugandan firms to compete in international markets

103. **Many of these observations have been made in previous studies**. The 2004 *Investment Climate Assessment* and the 2007 *Country Economic Memorandum* both emphasize that poor quality infrastructure and limited access to finance constrain performance and growth. The poor quality of power infrastructure in particular imposes a huge financial burden on firms in Uganda. Unfortunately, if anything, this constraint has become more binding since the earlier 2003 survey. Similarly, the 2004 *Investment Climate Assessment* noted that unit labor costs were high in that survey as well. One difference between the 2003 and 2006 surveys is that informality appears to have become a greater constraint in the 2006 survey, perhaps due to increases in counterfeit goods.

I. Increase private participation in infrastructure.

104. **By far the biggest concern is long-standing problems associated with infrastructure**. This is not a new issue. The 2004 *Investment Climate Assessment* flagged it as a significant problem and the 2007 *Country Economic Memorandum* argued that poor quality infrastructure—especially in the power sector—was the binding constraint upon growth.

105. **Firms were far more likely to say that power was a serious problem than they were about any other area of the Investment Climate**. Although, in part, this reflects the power crisis that hit Uganda just prior to the survey, problems in the power sector do not reflect only the short-term impact of the crisis. As noted earlier, power ranked as a serious problem in the earlier 2003 survey. Moreover, growth in demand has significantly outstripped growth in supply since 2003. As a result, large amounts of investment would have been needed even in the absence of the crisis.

106. **Firms were far less concerned about transportation than they were about power.** However, concern about transportation infrastructure has increased since the previous survey. Moreover, results from the 2006 survey suggest that poor quality transportation infrastructure is a particular burden for exporting firms. This is consistent with the evidence from the 2003 survey as described in 2004 *Investment Climate Assessment* and the 2007 *Country Economic Memorandum.*

107. **Despite reforms and the development of Private Public Partnerships, the *Country Economic Memorandum* notes that infrastructure is mostly financed from public sources**. The Government has taken several steps to increase investment in infrastructure in recent years (see Box 3 on power). Most infrastructure, however, continues to be financed from public sources. Moreover, the national budget is the main source of financing even in areas where infrastructure services are the responsibility of parastatals. The *Country Economic Memorandum* noted that private commitments were equal to only about 18 percent of infrastructure spending. Moreover, even in areas where infrastructure Private Public Partnerships have become important, such as in the power sector, much of the risk remains in the public sector.[53]

Recommendations

108. **The recent Public *Expenditure Review* emphasizes that increased public expenditures on infrastructure will be necessary, that the composition of public spending could be shifted towards infrastructure and that there is demand for prudent new concessional lending**.[54] It also notes, however, that spending efficiency could be improved and that, in particular, disbursement rates in infrastructure projects have been low. Ways of improving efficiency in a systematic way are discussed in the *Public Expenditure Review*.

109. **While the Government has made huge progress in addressing constraints in the power sector, the implementation of the public private partnership framework will enable timely investments in key infrastructures services beyond power**. Attracting large private investment in infrastructure will allow Government to leverage its public resources and stay within its expenditure framework.

110. **In addition to power, investments in transport, ground and air transport and water services will be required to achieve the targeted economic transformation**. Inadequate and costly transportation service is increasingly becoming a severe constraint to firm growth and is reducing the country's potential for exporting. Improving road infrastructure should therefore be a priority.

111. **Although improving transportation infrastructure in Uganda is important, it will also be necessary to work effectively with the Government of Kenya.** The high cost of exporting is not just due to problems within Uganda. One of the reasons transportation to port facilities is so costly for Ugandan firms is that there are problems in Kenya. The poor performance of the Port of Mombasa, the poor rail link from Mombasa to Kampala and the roads and vehicle inspection points from the border to Nairobi and onwards all contribute to the problems that Ugandan firms have with exporting. In particular, freight costs are higher for the Kenya portion of the trip to Mombasa than they are for the leg within Uganda. Transportation can therefore only be improved by working even more effectively with the Kenyan government.

112. **Problems in the transportation sector however do not only relate to severe deterioration of road infrastructure, to the ports or the political disturbances in Kenya, but also to the near stagnation in air transport investment**. Reorganization in air transport

sector (airports and regulation of air traffic) and review of the incentive framework needs to be undertaken and implemented.

113. **The lease arrangement for rail transportation will need to be monitored carefully and other competitive alternatives developed**. Rail transport has recently been privatized jointly with the Government of Kenya. While it is recognized that this is a fairly new arrangement, there are fears that the model is not achieving the expected benefits. The Government needs to monitor the lease arrangement carefully and also to ensure that there is more investment in competitive alternatives such as developing the southern corridor via Lake Victoria and Tanzania.

II. Improving access to finance:

114. **The Investment Climate Assessment confirms the *Country Economic Memorandum's* view that access to finance is the most binding constraint on firms other than infrastructure**. As in 2003, access to finance remains one of the areas of the investment climate that firms are most concerned about. Objective data also suggest that it is a serious problem. As in the past, firms rely heavily on internally generated earnings for investment. Moreover, the cost of financing remains very high both by regional and international standards, discouraging even eligible firms from getting loans.

115. **The only modest improvement in access to finance since the 2004 *Investment Climate Assessment* is not surprising**. The Government has not implemented the key policy reforms that have been proposed since the last survey. As discussed in Box 2 above, the Government has taken some important actions including establishing and licensing the first Credit Reference Bureau and provided capacity building and institutional strengthening for the Capital Market Authority. However, some major reforms in pensions and long-term finance have not been implemented.

Recommendations

116. **Although direct interventions are one way of improving access, these are not sustainable and do not lead to a systemic transformation of the financial markets**. Many studies have found that direct interventions by the state have not been highly successful.[55] In contrast, improving the legal framework, mortgages, companies, electronic signatures, business and land registration and their effective implementation will have a substantial impact on sustainable provision of financial services. These reforms would make it easier and less costly for banks to expand lending and thus reduce barriers to lending.

117. **The government will also have to implement key investment climate reforms in other areas to improve access to finance in a sustainable way.** While the Bank of Uganda has licensed additional banks to increase competition and also licensed a credit reference bureau under the new act, there is not much the Bank of Uganda can do to substitute for the implementation of key reforms in business environment. Reducing the government deficit and reducing the cost of enforcing contracts are key priorities in increasing access to sustainable financial services and reducing the cost of finance.[56]

118. **In addition to reducing government financing needs, other reforms can also reduce the high cost of financial intermediation.** The high cost also reflects the high cost of contract enforcement and the poor business environment in Uganda. In particular, Uganda compares very poorly with respect to getting credit and protecting investors in the Doing Business report. The poor score on the indicator for getting credit reflects the weakness of the credit reference bureau.

119. **Improving other areas of the regulatory environment will also improve access to finance.** Uganda also compares poorly in registering property and enforcing contracts. In a recent survey on banks and financial institutions by the Bank of Uganda, fraud and delays at the Lands Office and delays in the commercial courts banks hampered bank lending.[57] A mortgage act that simplifies contract enforcement will increase access to finance.

120. **Continuing to invest in firms' ability to produce reliable books and business plans might also be useful.** When asked about why they do not provide loans to firms, banks often noted problems with enterprises' applications. For example, banks often said that they did not give loans because potential customers did not provide enough information on their application, did not keep accurate books or have audited financial accounts, did not provide realistic or viable business proposals, had bad credit, had not registered their enterprise, or that they could not demonstrate sufficient market demand. Several attempts have been made to help firms in this area including the World Bank's *Second Private Sector Competitiveness Project*.[58] The success of these projects, however, depends at least partly on the behaviour and needs of entrepreneurs.

III. Reducing informality.

121. **Concern about informality has increased significantly since the last Enterprise Survey**. More firms said that competition with the informal sector was a serious problem than any area of the investment climate other than electricity, tax rates, and access to finance.

122. **Informality is a problem because it undermines revenue collection**. Reducing informality would expand the tax base, allowing the government to increase resources for improving the investment climate (e.g., by investing in infrastructure) and to reduce the burden of taxation on formal enterprises. Given the high level of concern about tax rates, this would be useful.

123. **But informality can also be a problem for firms that do pay their taxes and comply with government regulations**. Since informal firms avoid the cost of complying with these rules, they have an unfair advantage over formal firms that bear the cost of compliance. That is, inefficient firms can survive and even drive more competitive formal firms out of business by avoiding the costs associated with taxation and regulation. The high level of concern about tax rates probably at least partly reflects concern about tax evasion.

124. **Under the principles for amendment to the Investment code, the Uganda Investment Authority (UIA) will play an added role in SME development and formalization in the future**. In addition to coordinating efforts to provide business development services to SMEs, its role will including promoting formalization of microenterprises and SMEs.

Policy Recommendations

125. **Reducing informality requires that the government both reduces the cost of becoming formal and increases the benefits of doing so**. An immediate benefit of becoming formal is that this allows firms to enter higher value supply chains with large formal firms. It also means that firms can seek refunds of VAT expenditures. For this benefit to be useful, however, the government will have to improve its efficiency with respect to making refunds. One side benefit of formality is improved access to finance since formality allows firms to get loans from formal banks and will also allow firms to attract risk capital should financial markets become deeper. Currently, however, access to finance is both difficult and expensive for microenterprises and small enterprises whether they are formal or informal. Improving access to finance for formal firms will make it far more attractive for microenterprises to become formal.

126. **Another way of encouraging formality would be to reduce the time and cost of business registration**. Although Uganda compares relatively favorably with other countries in the region with respect to the overall burden of regulation and although the time and cost of starting a business has been reduced since 2003, both remain high by international standards (Uganda ranks 129th in the World). The problem is even more severe outside of Kampala.

127. **The main problem does not appear to be significant delays in any single procedure required to start a business—most procedures can be completed in a few days**. However, the large number of procedures required to start a business (18 in all) suggests that improvements remain possible. In the most efficient country in the world, New Zealand, firms only need to complete one procedure—registering at the company registrar—to start a business. This takes a single day. Even if it were not possible to eliminate all procedures in Uganda, other countries have reduced the number of procedures to only a handful. For example, it takes 4 days and 4 procedures in Singapore (see Table 7).

Table 7: Procedures to Start a Business in Singapore

No.	Procedure	Time	Cost
1	Registration on-line with ACRA including company name search and filing the company incorporation	1 day	SGD 315
2	Make a company seal	1 day	SGD 50
3	File the tax number (GST) on the IRAS (Revenue Authority of Singapore) website	1 day	no charge
4	Sign up for Workmen's Compensation Insurance at an insurance agency	1 day	no charge

Source: World Bank (2008a)

128. **In addition to reducing the number of procedures related to starting a business, it would be particularly useful to reduce the burden of registration in secondary cities**. As the analysis in the chapter on the sub-national cost of doing business shows delays were significantly greater outside of Kampala. More broadly, taking steps to reduce the inconsistent application and interpretation of laws in regions outside of Kampala would reduce the cost of becoming formal.

129. **A simple and efficiency solution to some of the delays outside of Kampala would be to design and deploy appropriate information data transfer systems**. For example, most of

the delays associated with getting a TIN number were related to transporting applications to Kampala for processing and then returning them back to the secondary city. International experience suggests that web-based applications could improve the quality of government services, increase citizen satisfaction, reduce costs and reduce the burden of administration. To the extent that corruption and rent-seeking is a concern, a more streamlined and automatic web-based procedure could also reduce these concerns.

130. **Although reducing the time to start a business would be useful—and about 23 percent of microenterprise managers said the time to complete registration procedures was a serious barrier to registering—reducing the cost is also important**. Microenterprise managers were about twice as likely to say the cost of registering was a serious barrier to registering as they were to say the time to register was.

131. **Related to reducing informality, the Government also needs to take steps to the reduce prevalence of counterfeit goods, which has become common for many fast moving brand-name consumer goods and for some medical products**.[59] This will require improvements in intellectual property rights. This would also have a significant impact on firms' willingness to innovate and to invest in branding and would, therefore, contribute to more rapid economic transformation.

IV. Improving innovation and increasing IT use.

132. **Low labor productivity partly reflects that most firms are labor intensive**. Increasing innovation and improving the use of information technology (IT) would allow firms to move into higher value-added production. Results from the Enterprise Survey suggest that this would improve productivity—firms that use information technology more intensively and that invest in ISO certification are more productive than other firms. Although the analysis does not show causality, it is reasonable to assume that investing in branding, international certification and information technology allows firms to enter differentiated quality markets and so to become more productive.

133. **Since the survey the government has taken several steps to improve labor productivity and increase technological uptake in the medium term**. In particular, in the 2009/10 budget, the government announced initiatives to boost vocational training, ensure universal secondary education, and provide incentives for technological uptakes including the agricultural machinery credit facility. The Second Private Sector Competitiveness Project, partly financed by the World Bank, also includes components associated with expanding access to skills training, technology and business development services.

Policy Recommendations

134. **One way of increasing performance is to make it easier for firms to brand their products**. As discussed in the previous sub-section, this requires improvements in intellectual property right protection. Another important aspect is to improve efficiency and efficacy of internet connectivity (internet backbone and telecom penetration). This will increase firms' access to new markets, increase access to knowledge and education, and improve market information. It can also make it easier for firms to enter export markets.[60]

135. **Improving the performance of the telecommunications sector would also be useful.** Uganda has already implemented successful reforms in the telecom industry which has extended Uganda's low telephone coverage from 3.5% to 5.9%. However telecom penetration is still low and costs are very high compared to other countries in the region and are even higher compared to the best performing countries. For example, international calls are twice as expensive in Uganda as in Kenya (US$0.42 to 0.45 in Uganda and US$0.20 per minute in Kenya).

136. **Reducing the cost of service would also be useful**. The Government needs to revisit the disincentives caused by high (18%) VAT and (12%) excise tax on airtime (5% on land lines and payphones), which ultimately limits Uganda's access to markets and international competitiveness. In addition to reducing taxes on telecommunication, the Government needs to further develop the institutional framework, in public private partnership for the management and service of the national ICT backbone, to ensure that it delivers the quality service required while avoiding possible monopoly pricing. Given its land-locked location, the already sound foundation due to the telecom restructuring and relative good education levels, further reform in this sector will lead to large social and economic benefits.

137. **A final issue related to this is further improving the skills and education of workers**. Although firms were not very concerned about worker education and skills, this appears to mostly reflect the types of firms that are currently in Uganda (i.e., highly labor intensive firms producing low value added goods). As other constraints are reduced (e.g., poor quality infrastructure), it is likely that worker skills and education will become a binding constraint for firms wishing to move into differentiated quality markets.

APPENDICES

Appendix 1: Enterprise Survey in Uganda—Sample Survey Design

Provided by EEC Canada

Survey coverage

The World Bank Enterprise Survey in Uganda targeted establishments located in Kampala, Mbarara, Jinja, Mbale, and Lira in the following industries (according to ISIC, revision 3.1): all manufacturing sectors (group D), construction (group F), retail and wholesale services (sub-groups 52 and 51 of group G), hotels and restaurants (group H), transport, storage, and communications (group I), and computer and related activities (sub-group 72 of group K). For establishments with five or more full-time permanent paid employees, this universe was stratified according to the following categories of industry:

1. Manufacturing: Food and Beverages (Group D, sub-group 15);

2. Manufacturing: Garment (Group D, sub group 18);

3. Manufacturing: Other Manufacturing (Group D excluding sub-groups 15 and 18);

4. Retail Trade: (Group G, sub-group 52);

5. Rest of the universe, including:

    - Construction (Group F);
    - Wholesale trade (Group G, sub-group 51);
    - Hotels, bars and restaurants (Group H);
    - Transportation, storage and communications (Group I);
    - Computer related activities (Group K, sub-group 72).

The survey also sampled a selection of micro establishments (establishments with less than five full-time permanent paid employees) from the targeted universe, without stratification by industry.

Sampling methodology

Establishments with five or more full-time paid permanent employees

The Uganda Bureau of Statistics (UBOS) kindly provided the ICA team with a satisfactory list of establishments. The list was an UBOS' updated version of the list from the most recent firm census before the time of the survey, the 2001/2002 Uganda Business Inquiry. This list was used to establish the initial population size, and then to set the target sample size for

each stratum. During the survey period, the list was further updated as new information regarding establishments that had closed or were out-of-scope was gathered. The final population size in all strata and locations was 3245, with the vast majority of establishments operating in the retail and rest of the universe strata.

In Uganda, the survey includes panel data collected from establishments surveyed in the 2002 PICS in Uganda. That survey included establishments in all three manufacturing strata as well as a small number from the rest of the universe strata, distributed across the entire country (although there were no panel establishments located in Lira, one of the surveys regions). In order to collect the largest possible set of panel data, an attempt was made to contact and survey every establishment in the panel, provided it was located in one of the five cities covered by this survey and operated in the universe under study. The remainder of the sample (including the entire retail sample in each city and the sample for all five strata in Lira) was selected at random from the master list by a computer program.

In addition to the firm-level survey, individual-level data was collected from 862 workers matched in the sampled firms in the manufacturing sector. To the extent possible, workers in each firm are selected randomly. Ideally, this is done from a list, when available. If not, workers are selected by walking through the work area and selecting workers randomly from throughout the work area. The average worker in the employee sample is 30 years old, has 6 years of working experience, has been with the current firm for 4 years and has completed 12 years of schooling. The gender composition of the employee sample is slightly higher than the average estimates derived from the firm sample: 24 percent of the sampled workers are female.

Microenterprises (fewer than 5 employees)

The sample of microenterprises was selected using a different approach to the SMLE survey. The microenterprise stratum covers all establishments of the targeted categories of economic activity with less than 5 employees. For many reasons including the small size of establishments, their expected high rate of exit and entry, the high level of informality among microenterprises and, consequently, the difficulty of obtaining trustworthy information from official sources, EEC Canada selected an area sampling approach to estimate the population of establishments and select the sample in this stratum for all regions of the survey.

The main steps in this approach are to:

i) *select districts and specific zones of each district* where a large number of microenterprises operate;

ii) *count all micro establishments* in these specific zones;

iii) based on this count, create a virtual list and select establishments at random from that virtual list;

iv) based on the ratio between the number selected in each specific zone and the total population in that zone, create and apply a skip rule for selecting establishments in that zone.

The districts and the specific zones were selected at first based upon discussions with national sources including the Bureau of Statistics and business associations. The EEC team then

went into the field to verify these sources and count microenterprises. Once the count for each zone was completed, the numbers were sent back to EEC head office in Montreal.

At head office the following procedure was followed: The count by zone was converted into one list of sequential numbers for the whole survey region, and a computer program performed a random selection of the determined number of establishments from the list. Then, based on the number that the computer selected in each specific zone, a skip rule was defined to select micro establishments to survey in that zone. The skip rule for each zone was sent back to the EEC field team. In Uganda, enumerators were sent to each zone with instructions as to how to apply the skip rule defined for that zone as well as how to select replacements in the event of a refusal or other cause of non-participation.

Tables

Table 8: Population size by stratum and sampling region

	Kampala	Mbarara	Jinja	Mbale	Lira	Total
Manufacturing	315	58	27	21	19	440
Food and beverages	*225*	*20*	*74*	*29*	*13*	*361*
Garments	*32*	*4*	*2*	*3*	*3*	*44*
Other manufacturing	*657*	*34*	*63*	*26*	*24*	*804*
Retail	888	31	41	39	30	1029
Rest of the universe	1,389	145	98	77	67	1776
Micro	10331	584	628	257	129	11929
Total	13522	818	906	431	266	15943

Table 9: Final sample size by stratum and sampling region

	Kampala	Mbarara	Jinja	Mbale	Lira	Total
Manufacturing	251	16	15	12	13	307
Food and beverages	*66*	*4*	*11*	*5*	*4*	*90*
Garments	*5*	*0*	*0*	*1*	*0*	*6*
Other manufacturing	*180*	*12*	*4*	*6*	*9*	*211*
Retail	95	9	8	6	4	122
Rest of the universe	106	9	7	6	6	134
Micro	78	7	5	5	5	100
Total	530	41	35	29	28	663

Participation

Table 10: Approached, refused, unavailable, and surveyed by stratum and sampling region

	Kampala				Mbarara				Jinja			
	App.	Ref.	Unavail.	Surv.	App.	Ref.	Unavail.	Surv.	App.	Ref.	Unavail.	Surv.
Manufacturing	315	54	10	251	27	9	2	16	27	10	2	15
Food and beverages	*91*	*19*	*6*	*66*	*10*	*5*	*1*	*4*	*18*	*5*	*2*	*11*
Garments	*16*	*8*	*3*	*5*	*4*	*3*	*1*	*0*	*2*	*2*	*0*	*0*
Other manufacturing	*208*	*27*	*1*	*180*	*13*	*1*	*0*	*12*	*7*	*3*	*0*	*4*
Retail	112	15	2	95	11	2	0	9	11	3	0	8
Rest of the universe	117	10	1	106	10	1	0	9	15	7	1	7
Total	**544**	**79**	**13**	**452**	**48**	**12**	**2**	**34**	**53**	**20**	**3**	**30**
	Mbale				**Lira**				**Total**			
	App.	Ref.	Unavail.	Surv.	App.	Ref.	Unavail.	Surv.	App.	Ref.	Unavail.	Surv.
Manufacturing	21	8	1	12	19	5	1	13	409	86	16	307
Food and beverages	9	4	0	5	7	3	0	4	135	36	9	90
Garments	3	1	1	1	3	2	1	0	28	16	6	6
Other manufacturing	9	3	0	6	9	0	0	9	246	34	1	211
Retail	12	6	0	6	8	4	0	4	154	30	2	122
Rest of the universe	9	3	0	6	9	3	0	6	160	24	2	134
Total	**42**	**17**	**1**	**24**	**36**	**12**	**1**	**23**	**723**	**140**	**20**	**563**

Table 11: Refused, unavailable, and surveyed as percentage of approached by stratum and sampling region

	Kampala				Mbarara				Jinja			
	App.	% Ref.	% Unavail.	% Surv.	App.	% Ref.	% Unavail.	% Surv.	App.	% Ref.	% Unavail.	% Surv.
Manufacturing	315	17.14%	3.17%	79.68%	19	26.32%	5.26%	68.42%	27	37.04%	7.41%	55.56%
Food and beverages	*91*	*20.88%*	*6.59%*	*72.53%*	*10*	*30.00%*	*0.00%*	*40.00%*	*18*	*27.78%*	*11.11%*	*61.11%*
Garments	*16*	*50.00%*	*18.75%*	*31.25%*	*4*	*50.00%*	*25.00%*	*0.00%*	*2*	*100.00%*	*0.00%*	*0.00%*
Other manufacturing	*208*	*12.98%*	*0.48%*	*86.54%*	*13*	*0.00%*	*0.00%*	*69.23%*	*7*	*42.86%*	*0.00%*	*57.14%*
Retail	112	13.39%	1.79%	84.82%	8	50.00%	0.00%	50.00%	11	2.68%	0.00%	7.14%
Rest of the universe	117	8.55%	0.85%	90.60%	9	33.33%	0.00%	66.67%	15	5.98%	0.85%	5.98%
Total	**544**	**14.52%**	**2.39%**	**83.09%**	**44**	**27.27%**	**2.27%**	**52.27%**	**53**	**3.68%**	**0.55%**	**5.51%**
	Mbale				**Lira**				**Total**			
	App.	% Ref.	% Unavail.	% Surv.	App.	% Ref.	% Unavail.	% Surv.	App.	% Ref.	% Unavail.	% Surv.
Manufacturing	21	38.10%	4.76%	57.14%	19	26.32%	5.26%	68.42%	409	21.03%	3.91%	75.06%
Food and beverages	*9*	*44.44%*	*0.00%*	*55.56%*	*7*	*42.86%*	*0.00%*	*57.14%*	*135*	*26.67%*	*6.67%*	*66.67%*
Garments	*3*	*33.33%*	*33.33%*	*33.33%*	*3*	*66.67%*	*33.33%*	*0.00%*	*28*	*57.14%*	*21.43%*	*21.43%*
Other manufacturing	*9*	*33.33%*	*0.00%*	*66.67%*	*9*	*0.00%*	*0.00%*	*100.00%*	*246*	*13.82%*	*0.41%*	*85.77%*
Retail	12	0.00%	0.00%	0.00%	8	50.00%	0.00%	50.00%	154	19.48%	1.30%	79.22%
Rest of the universe	9	0.00%	0.00%	0.00%	9	33.33%	0.00%	66.67%	160	15.00%	1.25%	83.75%
Total	**42**	**0.00%**	**0.00%**	**0.00%**	**36**	**33.33%**	**2.78%**	**63.89%**	**723**	**19.36%**	**2.77%**	**77.87%**

Table 12: Sample weights by stratum and sampling region

	Kampala	Mbarara	Jinja	Mbale	Lira	Total
Manufacturing	1.25	3.63	1.80	1.75	1.46	1.43
Food and beverages	*3.41*	*5.00*	*6.73*	*5.80*	*3.25*	*4.01*
Garments	*6.40*			*3.00*		*7.33*
Other manufacturing	*3.65*	*2.83*	*15.75*	*4.33*	*2.67*	*3.81*
Retail	9.35	3.44	5.13	6.50	7.50	8.43
Rest of the universe	13.10	16.11	14.00	12.83	11.17	13.25
Micro	132.45	83.43	125.60	51.40	25.80	119.29
Total	**25.51**	**19.95**	**25.89**	**14.86**	**9.50**	**24.05**

Note: The weights for the Micro stratum represent only the areas for which we conducted an area sampling

Appendix 2: Comparison of Samples from 2003 and 2006 Surveys

In addition to tracking the current state of the investment climate, one of the goals of this investment climate assessment is to assess how the investment climate has changed over time. An earlier Enterprise Survey was conducted in 2003.[1] A natural question is what needs to be done to compare the results from the two surveys.

In some ways, it would seem that it should be easy to compare results from the two surveys. After all, the two sample frames were based upon the same source of information: the 2001-02 firm census—although the list had been updated before the 2006 survey (see Appendix 1.1). Moreover, both surveys were stratified random samples.

There are, however, some problems comparing results from the two samples. A first issue is that the survey coverage is different in the two surveys. Whereas the 2003 survey covered the entire country other than inaccessible areas in northern Uganda, the 2006 survey covered only five cities. A second issue is that the two surveys covered different sectors. Most notably, the 2006 survey covers additional sectors—services and retail trade—as well as manufacturing.[2]

Problems associated with survey coverage are relatively easy to resolve. To make the results more comparable, comparisons between the two surveys will only be made for the manufacturing sector. Although this improves comparability between the two surveys, this does reduce the size of the 2003 sample (from about 392 to 300 firms) and also means that the numbers presented in this report for 2003 will differ slightly from the numbers presented in the 2003 Investment Climate Assessment (Regional Program on Enterprise Development, 2004a).

One way to assess whether this appears to affect the sample is to look at the distribution of firms in the two samples. Although differences could be due to differences in the population of firms in 2003 and 2006, it would seem that changes in the population characteristics would be likely to be relatively modest between 2003 and 2006—especially because the two sample frames are based upon lists provided by the National Bureau of Statistics based upon the 2001/02 sample.

In some ways the two samples are fairly similar. In particular, both are heavily weighted towards small firms – about 80 percent of the weighted 2006 sample are micro, very small or small and about 69 percent of the unweighted 2003 sample are this size. Garment firms make up only a small share of both groups. Exporters make up about 19 percent of firms in both years.

There are, however, some notable differences. Most notably, a greater share of firms come from the Central region, which includes Kampala, in 2006 (92 percent compared to 68

[1] Results from this survey are discussed in Regional Program on Enterprise Development (2004b)

[2] The 2003 survey covered three additional sectors: commercial agriculture (which was not covered in the 2006 survey), tourism (of which some sub-sectors are included) and construction (which is covered). Because of the absence of weights, however, the analysis of the 2003 survey focuses on manufacturing.

percent). In addition, food and beverage manufacturers make up a greater share of firms in the 2003 sample (41 percent compared to 31 percent). Large firms are also more important (20 percent compared to 10 percent)—consistent with the idea that large firms were oversampled in 2003. Finally, there are some microenterprises in the 2003 survey.

Table 13: Sample Characteristics of manufacturing firms, 2003 and 2006

	Percent of Sample (weighted)			Percent of Sample (weighted)	
	2003	2006		2003	2006
Central Region	68	92	Micro	5	0
North East	15	3	Very Small	13	18
South West	17	5	Small	51	62
			Medium	11	10
Exporters	19	19	Large	20	10
Non-Exporters	81	81			
			Food and Beverage	41	31
Foreign	23	15	Garments	5	6
Domestic	77	85	Other	54	64

Source: Enterprise Surveys

Overall, these differences might make it difficult to compare results from the two surveys. To try to reduce problems of comparability, comparisons between the two surveys will be made by comparing only manufacturing firms with five or more employees. In addition, differences between the two surveys will often be checked either by comparing results for subsets of firms (e.g., small firms only) and through regression analysis that controls for differences between types of firm.

Appendix 3: Comparator Countries

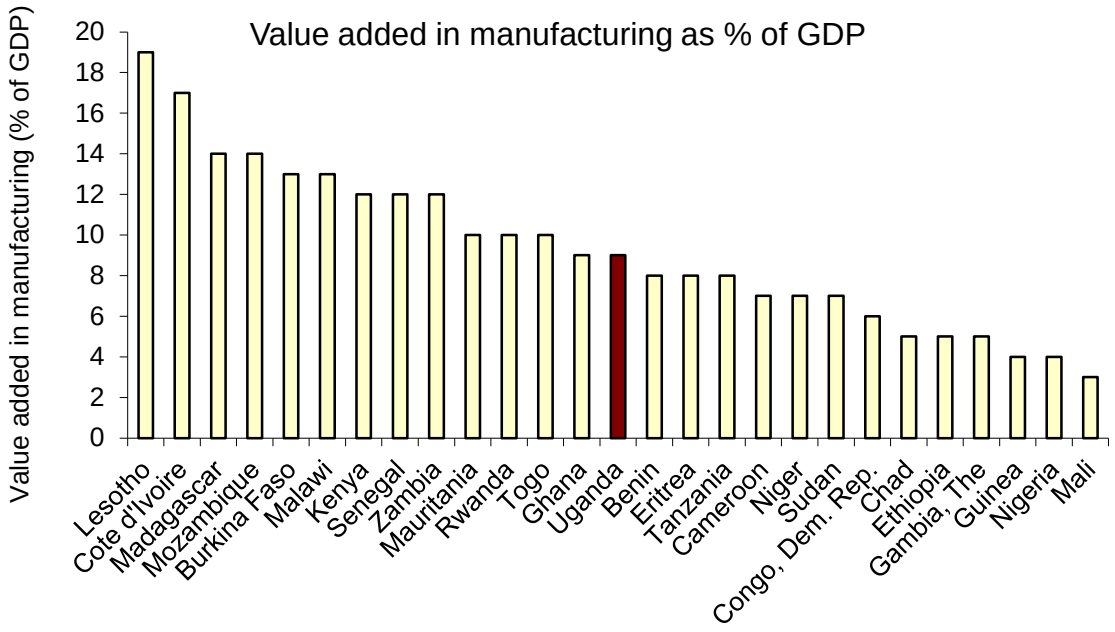
As discussed below, the main source of information for the investment climate assessment is a firm survey that was completed in late 2006-early 2007. One of the advantages of the World Bank's Enterprise Survey (ES) over other firm surveys is that the World Bank has conducted similar surveys in about 100 countries throughout the World. This makes it possible to benchmark firm performance and the investment climate in Uganda against other countries where similar surveys have been completed.

Throughout the report, Uganda will be compared with two groups of countries. First, Uganda will be compared with other low income countries in Sub-Saharan Africa (SSA). Enterprise Surveys have been conducted, or about to be conducted, in about 25 to 30 low-income countries in SSA—including Kenya and Tanzania. About 15 of these surveys were conducted in either 2006 or early 2007. Comparing Uganda with the entire sample of countries, and particularly with the most recently surveyed countries, will give some idea about how Uganda compares with other low-income countries in the region and in the immediate sub-region. Since an earlier survey was conducted in Uganda in 2003—although this survey only covered the manufacturing sector—comparisons will also be made with Uganda in 2003 in some places (see Appendix 1.2 for a discussion of the cross-time comparisons).

Although these comparisons are interesting, they might not give a good indication of what is needed to promote strong competitive private sectors, especially in the area of export-oriented manufacturing. With a few exceptions such as Lesotho, few low income countries in SSA have been successful in the manufacturing sector (see Figure 18) and even fewer have managed to enter international markets for manufactured goods. Although there has been a debate over why this is the case, many authors have suggested that the investment climate plays a role. Using firm-level data, Zeufack (2002) argues that neither the endowment ratio nor observable and unobservable skills explains the poor export performance of textile and garment firms in Ghana and Kenya relative to similar firms in India. Rather, he argues that weak institutions explain much of the difference. Based upon firm-level data from Zimbabwe, Kenya, and Ghana, Biggs and others (1996) argue that although task-level efficiency was lower for garment producers in these countries than it was in India or China, lower wages offset much of the difference. They argue that other factors such as poor infrastructure, difficulties associated with access to credit, and high transactions costs constrain export opportunities in Africa. Finally, Eifert and others (2008) argue that indirect costs associated with investment climate problems such as inadequate infrastructure, corruption and regulation explain why firms in SSA find it hard to compete on international markets with producers in Asia.[61]

Because of the problems that many countries in SSA have had diversifying into

Figure 18: Few low-income countries in SSA have diversified into manufacturing.



Source: World Bank (2008b).

manufacturing—and because of concern that this is because of investment climate problems in these countries—Uganda's investment climate will also be compared with investment climates in low and middle-income countries in East Asia and SSA that have successfully diversified out of primary production into producing and exporting manufactured goods. Therefore, in addition to the broad comparisons with low-income countries elsewhere in SSA, Uganda will also be compared with the following countries:

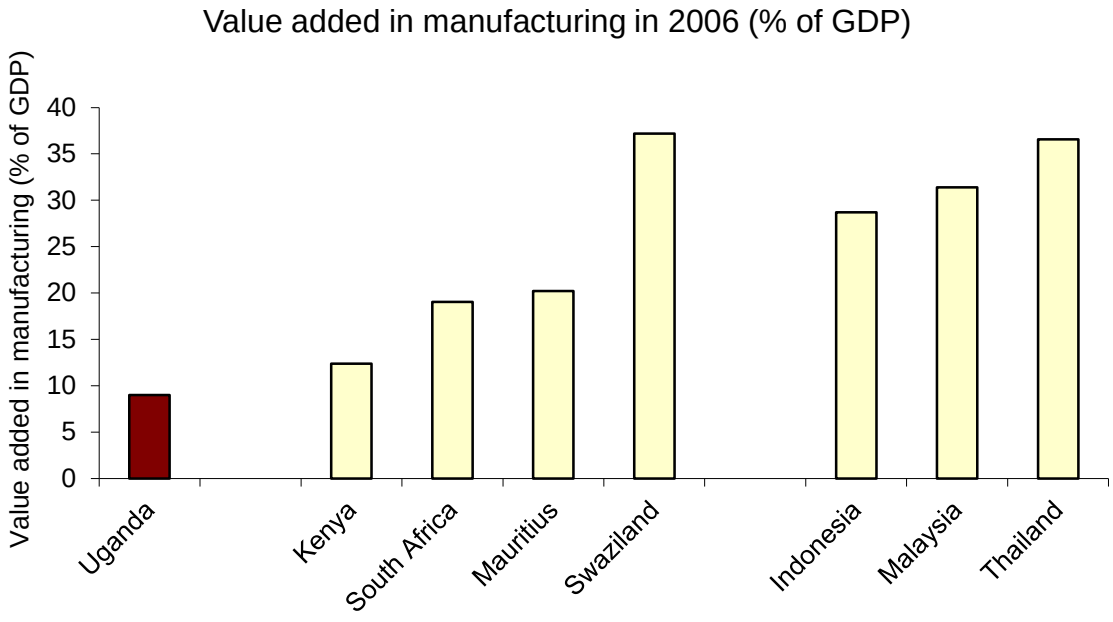
Regional Comparators: Kenya, Tanzania, Rwanda, Burundi.

Successful Manufacturing Economies in Sub-Saharan Africa: Mauritius, South Africa and Swaziland.

Successful Manufacturing Economies in East Asia: China, Malaysia, and Thailand.

Manufacturing is more important in these economies with respect to its contribution to Gross Domestic Product (GDP) than it is in Uganda (see Figure 1) and with respect to its contribution to exports (see **Error! Reference source not found.**). Value-added in manufacturing is equal to about 9 percent of GDP in Uganda in 2006. Although this is higher than in neighboring Tanzania (see Figure 18), it is slightly lower than in Kenya (about 12 percent of GDP). Moreover, it is considerably lower than in the best performing countries in SSA (between about 20 and 40 percent of GDP) and the comparator countries in East Asia (between about 30 and 40 percent).

Figure 19: Manufacturing is less important in Uganda than in the comparator countries that have been successful in boosting manufacturing.



Source: World Bank (2008b).

Because earlier surveys before 2006 covered only the manufacturing sector—and most of the surveys outside of Africa were conducted in 2004 or 2005, comparisons with countries outside of Africa include only manufacturing firms. When Uganda is being compared only with the other countries in Africa where surveys were completed in 2006 or 2007, firms from all sectors are included.

APPENDIX 6.3: DIFFERENCES IN THE INVESTMENT CLIMATE ACROSS FIRMS

Although much of the focus of the main report has been on the overall investment climate, it is also possible to look at differences across regions, across sectors, and across exporters and non-exporters. Before making these breakdowns, it is important to note that the samples can be relatively small in some cases (e.g., there are only between 20 and 30 firms in the cities outside of Kampala). For this reason, we present some results from simple hypothesis tests on whether the differences in means are statistically significant. It is, however, important to keep the small sample size in mind even for statistically significant differences.

Differences by region

Many of the problems that are observed in the investment climate in Uganda affect firms in all provinces. For example, power outages are high in all of the cities in the Enterprise Survey. Firms reported an average of 8 outages in Mbale, 9 in Mbarare, 11 in Kampala, 12 in Jinja and 14 in Lira. Although there were some statistically significant differences, this suggests that power outages have been a significant problem throughout the country.

Table 14: Average of investment climate variables by region.

	Kampala		**Jinja**		**Lira**		Mbale		Mbarare	
Number of firms (unweighted)	451		30		23		33		35	
Has audited accounts (% of firms)	49%	**	77%	***	35%		79%	***	36%	**
Age (years, average)	12		15		11		13		11	
Firm exports (% of firms)	10%		25%	***	0%		6%		9%	
Uses e-mail (% of firms)	32%		34%		21%		29%		26%	
Uses own website (% of firms)	**12%**	**	8%		0%		2%		8%	
Manager has university education (% of firms)	54%		63%		32%	**	66%		52%	
Part-time workers (% of workers)	9%		6%		10%		3%		10%	
Days of power outages (per month, average)[1]	11		12	***	14	***	8	***	9	
Cost of crime (% of sales, average)[1]	0.23		0.10		1.00	***	0.05		0.26	
Cost of security (% of sales, average)	0.69	*	0.71		1.33	***	0.32		1.56	***
Has bank accounts (% of firms)	86%		94%		60%	***	98%		77%	
Has loan or overdraft (% of firms)	24%	**	31%		49%	***	50%	***	31%	
Has invested in previous fiscal year (% of firms)	37%		56%		78%	***	41%		35%	
Investment (as % of sales, average)[1]	2%		4%		5%		4%		2%	
% of revenue reported to tax authorities (average)	48	***	55		78	***	76	***	73	
All revenues to tax authorities (% of firms)	23%		23%		23%		45%		46%	
Owns land (% of firms)	28%	*	26%		47%		37%		49%	*
Percent of land owned by firm (average)	27	*	26		47		36		48	*
Says 'firms like theirs' pay bribes (% of firms)	51%		55%		94%	***	34%		17%	***
Bribes (as % of sales, average)	2.9		1.4		5.0	***	2.8		0.3	***
Time spent dealing with regulations (average)	6.7		2.5	***	6.5		10.4	***	2.1	***
Number of tax inspections (average)[1]	1.9		1.7		2.5		2.2		3.6	***

Source: World Bank Enterprise Surveys.
***, **, * Average is different than average for other firms at 1%, 5% and 10% significance levels

There are some differences, however. In particular, the burden of regulation appears to be slightly lower in Jinja and Mbarare and slightly higher in Mbale. Interestingly, tax evasion appears to be more common in Jinja and Kampala that elsewhere in the country. Firm managers said 'firms like theirs' reported only about half of their income to the tax authorities in these two cities, compared to close to three-quarters in the other three cities.

Although Kampala has far more banks operating in it than in other parts of the country, access to credit does not appear to be better in Kampala. In fact, fewer firms reported having bank credit in Kampala than in other cities. In practice, this might be due to differences in

demand for credit rather than supply. As discussed in Chapter 5, firms in Kampala were less likely to say that bank credit was a serious problem than in other cities.

Differences by sector

Similarly, most aspects of the investment climate affected firms across sectors. For example, there were only relatively modest differences for manufacturing, service, and retail trade firms with respect to the frequency of power outages, the cost of crime and security, and corruption.

Table 15: Average of investment climate variables by sector

	Manufacturing		Services		Retail	
	307		134		122	
Has audited accounts (% of firms)	48%		53%		50%	
Age (years, average)	13		11	*	12	
Firm exports (% of firms)	19%	***	5%	***	9%	
Uses e-mail (% of firms)	31%		37%	**	21%	***
Uses own website (% of firms)	10%		14%	*	5%	***
Manager has university education (% of firms)	49%	*	60%	**	50%	
Part-time workers (% of workers)	7%		10%		7%	
Days of power outages (per month, average)[1]	11		10		11	
Cost of crime (% of sales, average)[1]	0.21		0.29		0.14	
Cost of security (% of sales, average)	0.67		0.88		0.61	
Has bank accounts (% of firms)	90%		82%	*	88%	
Has loan or overdraft (% of firms)	24%		35%	***	17%	***
Has invested in previous fiscal year (% of firms)	48%	***	38%		34%	***
Investment (as % of sales, average)[1]	4%	***	2%		2%	**
% of revenue reported to tax authorities (average)	56	*	56		43	***
All revenues to tax authorities (% of firms)	32%	***	27%		16%	***
Owns land (% of firms)	35%	**	36%	**	17%	***
Percent of land owned by firm (average)	34	**	35		16	***
Says 'firms like theirs' pay bribes (% of firms)	52%		51%		48%	
Bribes (as % of sales, average)	2.6		2.8		3.0	
Time spent dealing with regulations (average)	4.6	***	7.0	***	7.1	*
Number of tax inspections (average)[1]	2.4	***	1.9	**	1.9	**

Source: World Bank Enterprise Surveys.
***, **, * Average is different than average for other firms at 1%, 5% and 10% significance levels

The main differences between sectors were with respect to the burden of regulation, which was higher for firms in the retail trade and service sectors. Senior managers in these sectors spend about 7 percent of their time dealing government regulation compared with only 5 percent for manufacturing firms.

Another difference is that tax evasion appears to be more common in the retail trade sector. The typical manager in the retail trade sector said that firm like his reported only about 43 percent of revenues to the tax authorities compared to about 56 percent for firms in the other sectors.

Differences for exporters

Exporters tend to be very different from non-exporters. They are larger (147 workers compared to 27), more productive (see Chapter 2), and have many other characteristics that

suggest that they are more formal. For example, their managers and workers are better educated—66 percent of managers have a university education and only 27 percent of workers have a primary education or less for exporters compared to 53 percent and 44 percent for non-exporters. They are also more likely to have their own website, have audited accounts, own land, and provide training to their workers.

Table 16: Average of investment climate variables by export status.

	Exporter	Non-exporter	
Has audited accounts (% of firms)	78%	48%	***
Age (years, average)	14	12	***
Firm exports (% of firms)	100%	0%	***
Uses e-mail (% of firms)	61%	28%	***
Uses own website (% of firms)	25%	9%	***
Manager has university education (% of firms)	66%	53%	**
Part-time workers (% of workers)	5%	9%	
Days of power outages (per month, average)[1]	9.9	10.6	
Cost of crime (% of sales, average)[1]	0.2	0.2	
Cost of security (% of sales, average)	0.4	0.8	
Has bank accounts (% of firms)	95%	85%	**
Has loan or overdraft (% of firms)	41%	26%	***
Has invested in previous fiscal year (% of firms)	46%	39%	*
Investment (as % of sales, average)[1]	3.0%	2.5%	
% of revenue reported to tax authorities (average)	49	53	
All revenues to tax authorities (% of firms)	26%	25%	
Owns land (% of firms)	36%	30%	***
Percent of land owned by firm (average)	33	29	**
Says 'firms like theirs' pay bribes (% of firms)	59%	50%	
Bribes (as % of sales, average)	2.6	2.8	
Time spent dealing with regulations (average)	8.9	6.0	***
Number of tax inspections (average)[1]	2.2	2.0	
Have generator	60%	22%	***
Provide own transportation	51%	29%	***
Losses due to breakage and theft during transportation	1.8	0.8	*
Days of water outages	0.2	0.2	
Firm provides training (% of firms)	49%	32%	**
Percent of workforce with only primary education	27%	44%	*
Firm competes with informal firms (% of firms)	60%	76%	

Source: World Bank Enterprise Surveys.
***, **, * Average is different than average for other firms at 1%, 5% and 10% significance levels

Although they are different in some ways, they are also affected by problems in the investment climate. For example, they are as likely to face power outages, the cost of crime and security is about the same for exporters and non-exporters and the burden of regulation is higher for exporters than non-exporters. This final result could be because they are larger and are therefore more visible to inspectors and regulators. They also report higher losses due to breakage and theft during transportation.

The are, however, better equipped to deal with problems in the investment climate. For example, they are more likely to have generators, are more likely to provide their own transportation and are more likely to have loans and overdrafts. These should all place them better to cope with problems in the investment climate.

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ENDNOTES

[1] See Appendix 1.2 in Volume 2 of the ICA for a complete discussion. One important point is that the sampling was slightly different – in particular, the 2003 survey only covered manufacturing, construction and tourism (i.e., it did not cover the entire service sector or retail trade) and large firms appear to have been slightly oversampled. In Volume 2, the effect of this on individual indicators is discussed in more depth and results are compared for panel firms and the entire sample. In this volume, we mostly focus on the panel firms since we believe that this provides an easier, more intuitive comparison. Another point is that in some cases, questions in the 2008 survey were not included in 2003 survey making comparisons impossible.

[2] See World Bank (2007a). As noted in the CEM (Volume 1, p. 8), Uganda's success might partly be attributed to rehabilitation (World Bank, 2007a).

[3] See World Bank (2007a).

[4] Data are from World Bank (2008b)

[5] See, for example, the discussion of the challenges facing land-locked countries in Africa in Collier (2007).

[6] See World Bank (2007a, p. 23)

[7] See Chapter 2 in main report for more detail.

[8] See Regional Program on Enterprise Development (2004b).

[9] This section focuses on the broadest measure of productivity, total factor productivity. A detailed analysis of other measures of productivity is discussed in Chapter 2 of the main volume. A detailed description of the econometric methodology is described in Appendix 2.1.

[10] It is important to note at this point that there are some methodological issues, which are discussed in Appendix 2.1 of the main report, associated with estimating changes in TFP using firm-level survey data as opposed to census-level data. In addition, it is difficult to make cross-time comparisons due to differences in sampling methodologies between the two surveys (see Appendix 1.2). For this reason, we mostly focus on panel firms (i.e., firms included in both the 2003 and 2006 surveys).

[11] As discussed in Appendix 1.2, different sampling methodologies make it difficult to make cross-time comparisons using the two surveys. The issue of the change and comparisons for panel and non-panel firms is discussed in Chapter 2 in main report,

[12] See Chapter 3 in main report for more detail.

[13] The statistical significance of these results are presented in the econometric analysis in Volume 2. See Appendix 3.1 in Volume 2 for further discussion.

[14] See Chapter 6 in main report for more detail.

[15] See World Bank (2007a)

[16] See Regional Program on Enterprise Development (2004b).

[17] See Regional Program on Enterprise Development (2008)

[18] Because the 2003 survey only covered manufacturing, averages for all firms are only taken over manufacturing firms. Outliers more than 3 standard deviations from the mean are dropped when calculating means. As discussed in Volume 2, comparisons between the two surveys can be difficult due to different coverage in the two samples. Results for panel firms only, however, are similar.

[19] The question reads "What were your total losses for the year as a result [of power outages] as a % of annual sales or as a total amount?" In practice, managers sometimes include costs such as the additional cost of generator fuel (over the cost of power from the grid) in their estimates.

[20] See Regional Program on Enterprise Development (2004b)

[21] See Chapter 5 in main report for more detail.

[22] As noted above (see footnote 18), differences in sampling make comparisons between the two surveys difficult. For this reasons, these comparisons focus only on the panel firms (i.e., firms interviewed in both surveys). A more complete discussion of cross-time comparisons is presented in Chapter 5 in Volume 2.

[23] This probably reflects numerous things including country risk, the availability of other investment opportunities, and competition in the banking sector. Further work on this would be useful.

[24] See World Bank (2008a)

[25] See Chapter 8 in main report for more detail.

[26] World Bank Institute Social Protection Team (2005).

[27] See World Bank (2007a)

[28] It is important to emphasize that informality should be seen as a continuum. As discussed in World Bank Africa Region Analysis on the Informal Economy(2008) notes many 'informal' firms will pay some taxes (e.g., to local government) even if they do not pay national taxes and will be registered at the local level even if they are not registered at the national level.

[29] We thank, M. Louise Fox for this comment.

[30] See discussion of tax evasion in Volume 2.

[31] See, for example, Rocks and Halperin (2008)

[32] Although slightly fewer unregistered microenterprises had loans than registered microenterprises in the sample, this appears to be due to sampling variation rather than an actual difference between the two percentages (see Chapter 8 in Volume 2).

[33] See Chapter 6 in main report for more detail.

[34] See World Bank (2008a). This measure is similar to an average effective tax rate (i.e., rather than a marginal effective tax rate). Chapter 7 discusses other measures of tax rates as well as the *Doing Business* Measure.

[35] See Chapter 6 in main report for more detail.

[36] See Kaufmann and others (2007). See Governance section in Chapter 6 in main report for more detail.

[37] In many countries, perceptions about tax rates and informality are positively correlated (i.e., firms that said that tax rates were a problem were also more likely to say that informality was a problem). For the 13 African countries surveyed in 2006 the correlation is positive and statistically significant (correlation=0.26, p-value=0.00). The correlation, however, is not as strong in Uganda (correlation=0.02, p-value=0.60) suggesting that it might be less important in this case.

[38] See Chapter 6 in main report for more detail.

[39] See econometric analysis in Appendix 3.1 in Volume 2.

[40] Losses during transportation were, however, higher for exporters than non-exporters. See Appendix 6.3 in Volume 2.

[41] World Bank (2007a) noted that Ugandan firms 2002 survey) on average lost 1.8 percent of domestic sales and 1.1 percent of exports because of delays in transportation services. 23 percent of non-exporting firms cited transport as a major or severe obstacle to business, compared to 35 percent of exporters.

[42] The *Doing Business* report collects information on the cost of exporting a standardized cargo of goods to an overseas destination using the port that firms in the country most frequently use for exports (Mombasa in Kenya for Uganda) from freight forwarders, shipping lines, custom brokers and port officials. The report documents all forms that need to be completed, the time it takes to complete all steps associated with exporting and importing included

customs clearance, completing all forms, port procedures and inland transportation. The methodology is described in detail on the Doing Business website (www.doingbusiness.org) and in World Bank (2008a). It is also described in more detail in Volume 2 of this report.

[43] See World Bank (2007a)

[44] See Chapter 4 in main report for more detail

[45] See Regional Program on Enterprise Development (2004b).

[46] This is very low relative to other estimates from developing countries, where Mincerian returns average about 10 percent overall and as high as 13 percent in low-income countries in SSA (Psacharopolous, 1993; 1994). In comparison, similar estimates for Botswana, Namibia and South Africa suggest returns between about 7 and 10 percent, 7 and 11 percent, and 7 and 12 percent respectively (Clarke and others, 2008; Regional Program on Enterprise Development, 2007a; Regional Program on Enterprise Development, 2007b).

[47] Consistent with this interpretation, firms that faced more power outages were less likely to say that worker education and skills were a serious problem. This suggests that if infrastructure constraints were released concern about education and skills would increase.

[48] See Chapters 6 and 7 in main report for more detail.

[49] See World Bank (2008a). Rather than interviewing firms, the *Doing Business* report collects detailed information on regulations from lawyers, accountants, and other shippers. Many of the measures are primarily—although not exclusively—based upon legal requirements rather than how the law is applied. For example, the measures of labor regulation, getting credit, and protecting investors are based upon a detailed analysis of the laws in these areas without specifically looking at how they are enforced. The Doing Business indicators are discussed in far greater detail in Volume 2.

[50] See Appendix 7.2 in the main report for a full summary of changes since 2003.

[51] See Chapter 8 in main report for more detail.

[52] In addition, the ICA also looks at a number of additional procedures that new businesses have to complete across regions. There are: (i) registering employees for workers compensation; (ii) getting new power and water utility connections and transferring existing power and water utility connections to new accounts; and (iii) opening a bank account and applying for an overdraft facility.

[53] For example, in the electricity sector, the Country Economic Memorandum (World Bank, 2007a) notes that Eskom's revenue was guaranteed for the first seven years of the contract and that the Government, therefore, absorbed the full increase in the unit price of generation that resulted from the reduction in hydropower capacity during the 2006-07 crisis.

[54] World Bank (2007b)

[55] Rather than being allocated efficiently, lending tends to become politicized. See, for example, the discussion in Chapter 3 "Government Failure in Finance" in the World Bank's "Finance for Growth" report (Caprio and Honohan, 2001). See also the discussion of lending by Uganda Commercial Bank (UCB) in Clarke and others (forthcoming).

[56] One way of doing this might be to leverage infrastructure through PPPs. It is important to note, however, that if Uganda can finance its share of a PPP or infrastructure financing through concessional money then financing the deficit is less of a problem.

[57] See Volume 2, Chapter 5 for more details.

[58] See World Bank (2004)

[59] Rocks and Halperin (2008) note that in African this is not just a problem for luxury goods but also for low-end high-volume consumer goods such as ballpoint pens and shoe polish.

[60] There is a large literature linking internet use to export behavior that argues that access to the internet has boosted exporting and globalization in recent years. Friedman (1999) discusses reasons for this and provides examples of

how the Internet has allowed producers in developing countries to export. Several academic articles have shown that this relationship can be observed using both macroeconomic data (Clarke and Wallsten, 2006; Freund and Weinhold, 2002; Freund and Weinhold, 2004) and firm-level data and firm-level data (Clarke, 2008; Yoshino, 2008).

[61] Using firm-level data for seven countries in Sub-Saharan Africa, including Tanzania, Clarke (forthcoming) shows that restrictive trade and customs regulation have affected manufacturing exports from Africa, including from Uganda.