

UGANDA

Private Sector Development and Jobs

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April 2019

Summary of Recommendations

Develop an economy that nurtures high-potential firms and attracts FDI.

Support domestic firms at every stage of life cycle growth:

- Offer incentives for entrepreneurs.
- Streamline programs on self-employment and link with existing safety net programs.
- Provide financial support to high-potential entrepreneurs, using a robust screening process to identify them.

Develop technical assistance and financial support structures for firms in early stages.

- Provide technical assistance and funding to incubators.
- Support research centers to foster innovation.
- Centralize information on a web platform.
- Provide financial support to young firms to grow.

Enhance market access for SMEs.

- Facilitate access to public procurement
- Develop a supplier database.

Attract more FDI to Uganda.

- Increase efforts to streamline procedures overall, but with specific focus on FDI.
- Intensify high-profile anti-corruption efforts.

Align fiscal incentives with policy objectives.

- Conduct a cost-benefit analysis of current exemptions to understand impacts on different types of firms.
- Re-orient incentives towards investments expected to bring jobs.
- Eliminate discretionary tax exemptions from any authority, in whatever form.

Diversify the Ugandan economy by attracting FDI in for exports and support local firms to upgrade products for export.

Improve logistics and trade facilitation.

- Build capacity of institutions charged with inspection and sanitary standards and international quality certification.
- Continue efforts to reduce trade costs.
- Establish a specialized agency to support SMEs to export.
- Provide specialized consulting services to SMEs willing to export.

1. INTRODUCTION

The Ugandan economy needs to generate enough jobs to absorb the large number of new entrants in the labor market while reducing unemployment. Uganda has one of the youngest and most rapidly growing populations in the world. The working-age population has growing by over 2.7 million between 2012 and 2016. Though not every youth reaching the age of 15 enters the labor market, between 2012 and 2016, 420,000 new people began looking for jobs. Meanwhile, the economy created 320,000 new opportunities, meaning the economy was about 100,000 jobs short of absorb new job market entrants (Table 1). The economy has not been able to generate enough jobs to decrease unemployment and absorb new entrants.

The private sector needs to create more jobs to meet the demographic challenge. Conventional wisdom holds that a growing economy with a growing private sector would result in job creation. But in many instances, including in Uganda, private sector growth has not fully delivered the expected number of jobs. The Ugandan economy has grown substantially over the past decade, and the private sector has been expanding and increasingly contributing to employment, creating 800,000 new jobs between 2012 and 2016. But this was not enough to absorb all new entrants to the labor market as well as people transitioning jobs (self-employed or unpaid jobs to private sector jobs, for instance). As a result, labor participation diminished, unemployment increased by 100,000, the poverty rate increased, and the unpaid work became predominant.

This note analyzes the contribution of the private sector to employment (Section 2). It then defines two policy axes that could support job creation (Section 3). Section 4 investigates the reason why these policy axes have not been implemented. Section 5 proposes concrete actions to foster employment through private sector development in Uganda.

Box 1: WHAT IS A JOB IN UGANDA?

A **job** is defined as a work activity remunerated in cash or in-kind, and does not violate human rights (World Bank 2012). The definition includes labor activities that generate income for the household, even if income cannot be assigned specifically to individual household members, such as for household farming or household nonfarm enterprises. It includes goods produced for final household consumption (food from the family plot, for example), but excludes services consumed by households (such as looking after children, cooking, fetching water). It does not include employment that goes against fundamental rights (ILO 1998); forced or child labor, is not a job (although, as discussed in Section 3, not all child work is child labor in the sense of violating children's rights).

The **working-age population** encompasses the adult population between 15 and 64 years of age.

The **labor force** includes the employed, unemployed, and inactive.

The **employed** are those who reported, in the relevant survey, having worked for pay or for profit for at least one hour in the previous week.

Wage workers are those who work for someone else in exchange for a salary, daily wage, or "per-task" pay. They can be employed in a private firm or by a public administration.

The **inactive** are those who do not work, who do not study and who are not looking for work.

We will use **self-employed** and **own-account worker** synonymously. The report distinguishes between people who consider themselves as Employer and Own-account worker. Own-account workers can also be employing people in our case.

We consider that **household enterprises** are enterprises with the unit of production being the household. We exclude farms (commercial and subsistence) from household enterprises.

Productive job is a broad term linked to the quality of jobs, primarily their productivity and earnings capacity. Productivity generally refers to the value-added each worker generates. For poverty reduction, productive jobs can be considered employment that generates enough income to bring people out of poverty.

2. THE CONTRIBUTION OF PRIVATE SECTOR TO EMPLOYMENT

2.1. Quantity of jobs: the main employers remain small, informal, and agrarian firms

The private sector has been increasingly contributing to employment. The private sector created more than 800,000 jobs between 2012 and 2016 (see Table 1), one-third of which were for youth (15-24). In total, wage work in the private sector accounts for 24 percent of total employment.

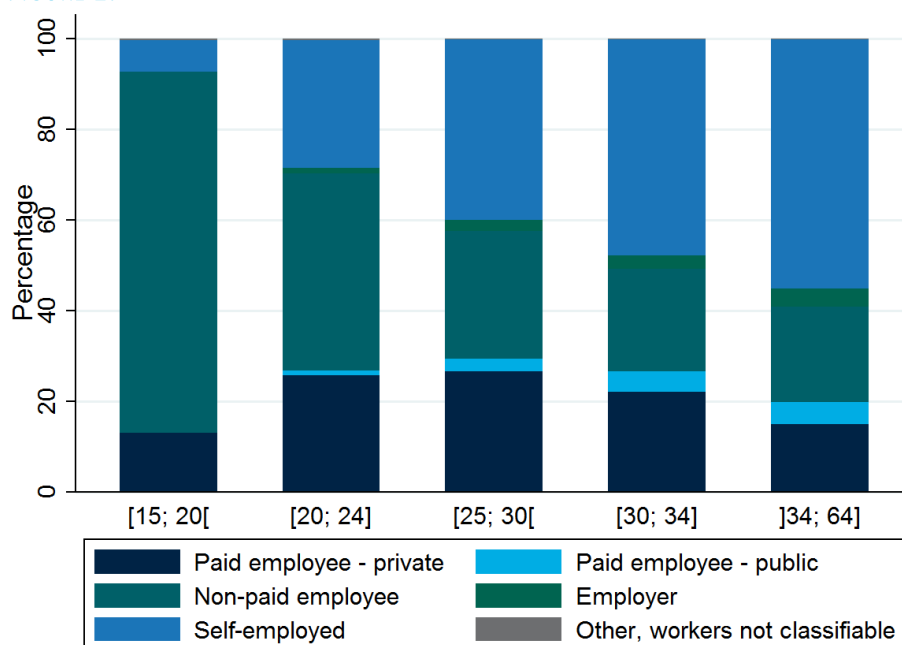
TABLE 1: EVOLUTION OF KEY JOB OUTCOMES BETWEEN 2012 AND 2016

	2012	2016	DIFFERENCE
TOT POPULATION	35,596,963	39,580,394	3,983,431
WORKING AGE POPULATION	16,618,269	19,350,806	2,732,538
LABOR FORCE	14,857,182	15,276,837	419,655
UNEMPLOYED	286,744	386,504	99,760
EMPLOYED	14,570,439	14,890,333	319,894
SELF-EMPLOYED	7,244,422	5,971,023	-1,273,399
UNPAID EMPLOYEE	3,578,500	4,924,233	1,345,733
PAID EMPLOYEE	2,692,617	3,512,629	820,012
PRIVATE	2,259,875	3,082,299	822,424
PUBLIC	432,742	430,331	-2,411
EMPLOYER	174,845	452,666	277,821
OTHERS/NON CLASSIFIED	880,055	29,781	-850,274

Source: UNHS (2016/17)

Private wage employment is an important source of employment for people aged 20 to 34. Access to jobs differs widely across age groups. As shown in Figure 1, workers in the youngest age category are mainly working in the family business or farm but this proportion decreases with age. Conversely, the probability of being self-employed seems to increase with age. The proportion of young people being employed in the private sector is higher (and similar) for the age groups 20-24, 25-30, and 30-34 than for other age categories.

FIGURE 1: STATUS ON THE LABOR MARKET

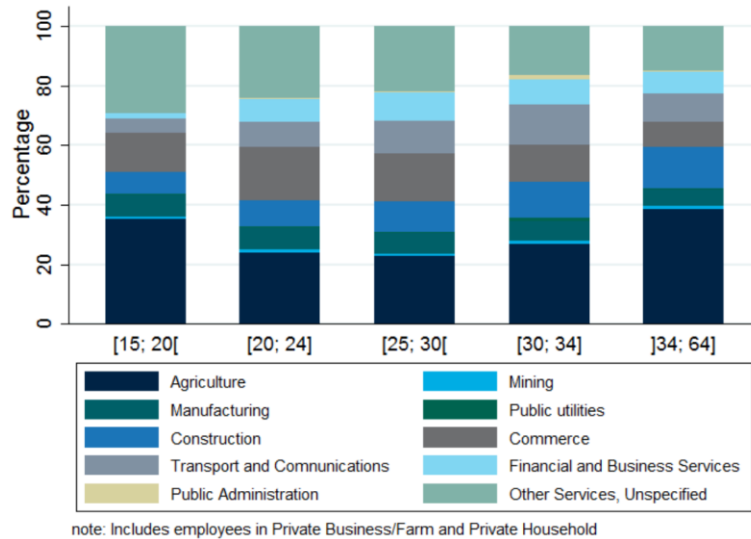


Source: UNHS (2016/17)

Private wage employment is concentrated in agriculture, construction, and services, but with large disparities across age groups. Wage employees are mainly working on farms (29 percent), in commerce (14 percent), in construction (11 percent), and in other services (21 percent)¹. However, we observe large variations across age categories (Figure 2). Small services to households (under the category *Other services*) and agriculture each account for one-third of total employment for the youngest age category 15-20. Commerce and financial business services account for a substantial share of employment among 20-34 years old categories. Agriculture is the main sector across all age groups, but slightly less for the 20-34 age group. Agriculture accounts for one-quarter of waged jobs for 20 to 30-year-olds compared to one-third for all ages.

¹ These other services include education but also small services to households (e.g. housekeeping, digging, etc).

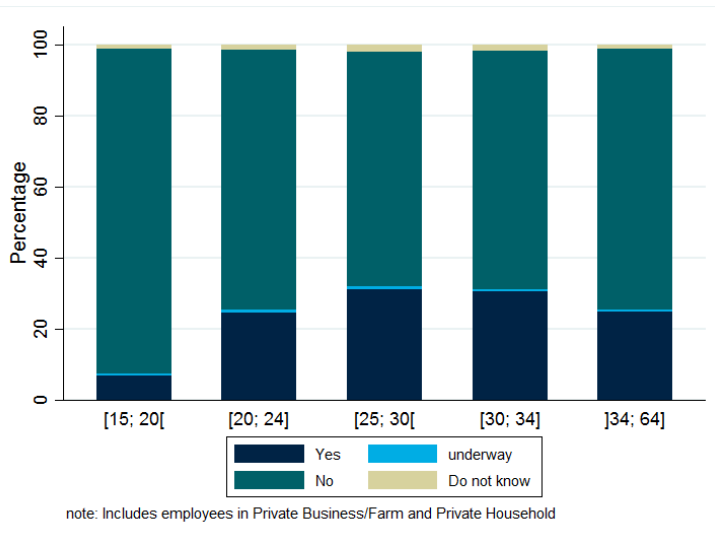
FIGURE 2: SHARE OF PRIVATE WAGE EMPLOYMENT BY SECTOR



Source: UNHS (2016/17)

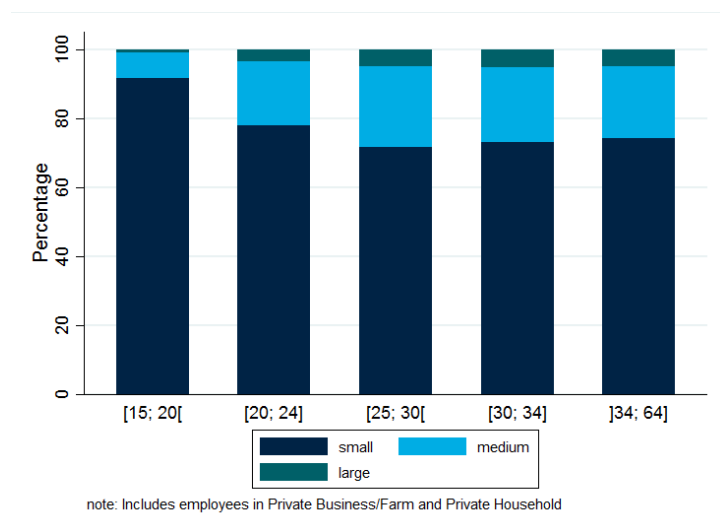
Private wage employment is also concentrated in small and informal firms. More than two-thirds of jobs in the private sector are in informal firms. More than 90 percent of the jobs are in small and medium-sized firms (less than 100 employees), with a predominance in small firms. Two-thirds of jobs concentrate in firms with less than 10 employees. Only six percent of private wage employment is in large firms (more than 100 employees). Figures 3 and 4 also show that the incidence of jobs in informal and small firms is considerably higher for the 15-20 age group. Household enterprises hire 30 percent of this age group, compared to 10 percent on average for all other age groups.

FIGURE 3: FORMALIZATION OF PRIVATE FIRMS



Source: UNHS (2016/17)

FIGURE 4: SIZE OF EMPLOYERS



Source: UNHS (2016/17)

2.2. Quality of jobs: jobs are better in the wage sector, but quality could be significantly improved

Wage employment constitutes an important source of revenues for households, but agriculture remains the main source of earnings. According to the latest household survey, private sector jobs pay relatively well compared to self-employment. On average, the national monthly wage for paid employees in the private sector is 270,000 shillings, while revenues for own-account workers average 191,000 shillings per month. Salaries are higher for public sector work and employers: 495,000 shillings per month and more than a million shillings per month for public sector work and employers respectively. As shown in Table 2, small-scale agriculture still remains the main source of earnings. Only a quarter of the households indicate that wage employment is their main source of earnings, followed by non-farm enterprise (one-fifth of households).

TABLE 2: MAIN SOURCE OF EARNINGS DURING THE LAST 12 MONTHS – PERCENT OF HOUSEHOLDS

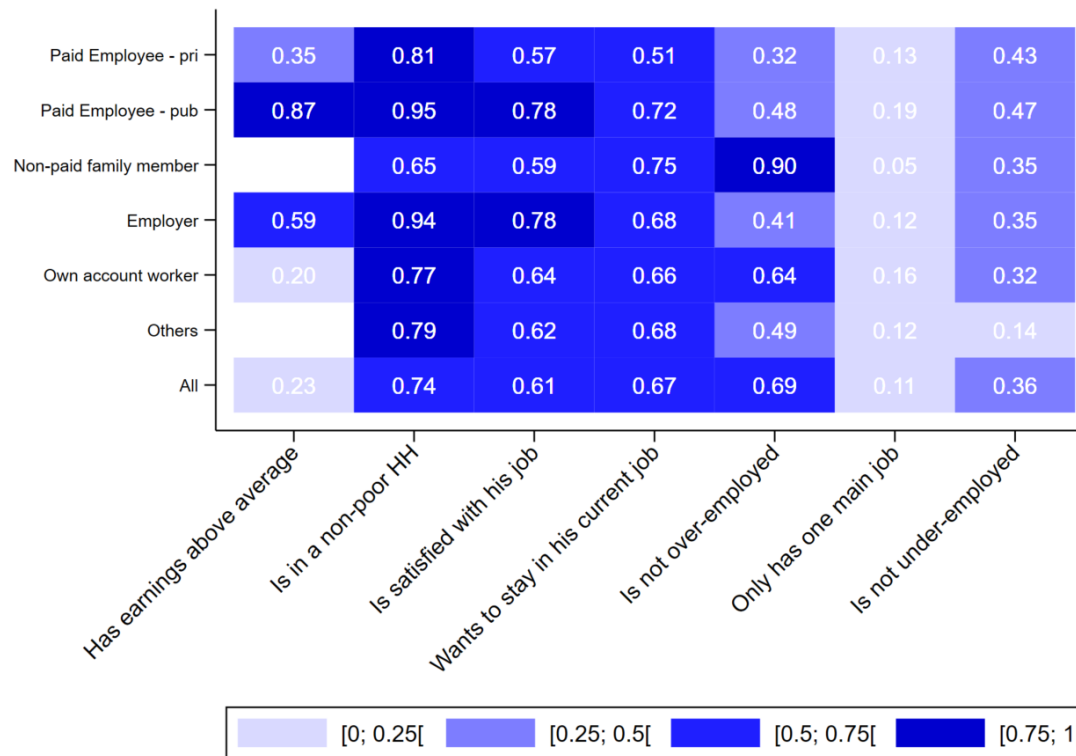
SOURCE OF INCOME	PROPORTION OF HOUSEHOLDS
SMALL-SCALE AGRICULTURE	43.1
COMMERCIAL FARMING	2.2
WAGE EMPLOYMENT	25.7
NON-FARM ENTERPRISE	20.4
OTHERS (PROPERTY, TRANSFERS, REMITTANCES, AID)	8.6

Source: UNHS (2016/17)

Being a paid employee in the private sector is not necessarily a “good” job. When looking at different indicators relating to quality of employment (Figure 5), only 57 percent of paid employees in the private sector are satisfied with their job, lower than for any other type of job. Similarly, only half of these

workers want to stay in their current job. Workers seem to be better off in wage employment compared to some categories (unpaid, own-account workers), but it does not translate into work satisfaction.

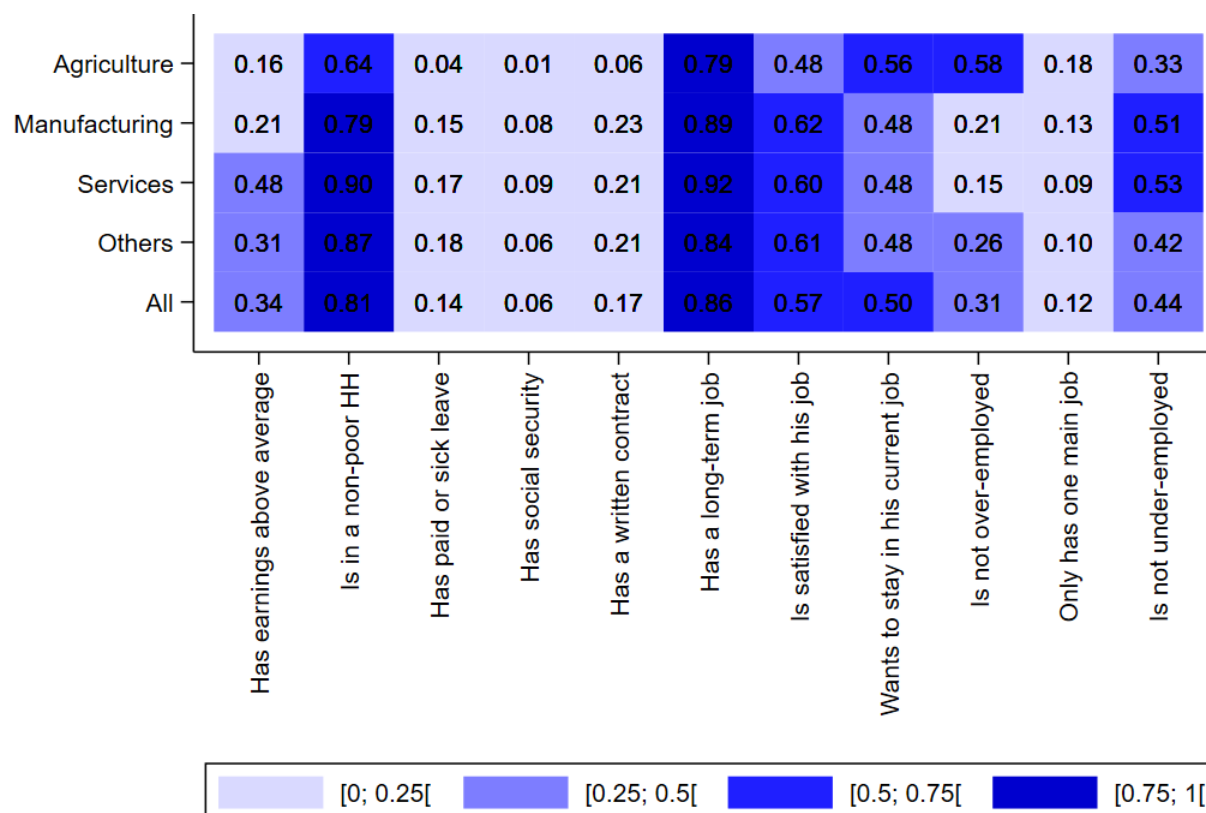
FIGURE 5: QUALITY OF EMPLOYMENT PER TYPE OF JOB (IN PERCENTAGE)



Source: UNHS (2016/17)

The sectors for “good” jobs are not obvious. If defining a “good” job along five dimensions—income, job benefits, stability/security, job satisfaction, and over/under-employment (see Box 3)—we do not necessarily identify a sector that provides good jobs across all dimensions. First, monthly earnings in agriculture for a wage worker is 150k shilling—compared to 270k as a wage worker in manufacturing and 433k as a wage worker in services (included commerce). Second, all sectors fare poorly when on “benefits”: paid leave or social security. Agriculture clearly trails, with few workers having paid or sick leave and/or social security. Third, agricultural jobs are also less secure with fewer than one-fifth of having a written contract. Fourth, job satisfaction is mixed: 63 percent of manufacturing workers say they are satisfied with their job, but only 50 percent want to stay. Lastly, workers seem to be working longer hours in manufacturing and services. Overall, services and manufacturing seem to provide better jobs than agriculture, paying more and offering more benefits. However, they also require longer working hours, and most people report wanting to leave these jobs, where benefits are still very limited.

FIGURE 6: JOB QUALITY FOR WAGE EMPLOYEES BY SECTOR



Note: Other includes education, health, arts, households activities, mining, construction, public

Source: UNHS (2016/17)

Box 3: WHAT IS A “GOOD

Job quality is usually defined along four widely cited dimensions: income, job benefits, stability/security, and job satisfaction. Because this framework was established for middle and high-income countries, we add the fifth dimension “under/over-employment” for Uganda.

Each dimension of job quality consists of one or more indicators capturing job characteristics and is based on available data. Each indicator is binary to enable computation of a job quality index, where “1” represents good job quality while “0” represents not good job quality.

The *first* dimension of job quality is income: a high-quality job should pay a wage high enough to keep the worker above the poverty line. Thus, we use two indicators: whether the monthly revenues are above the national monthly average and whether the household has revenues below the poverty line.

The *second* dimension captures whether the job provides benefits. We use three indicators: whether the worker benefits from annual paid leave, paid sick leave, or social security contribution.

The *third* dimension is job security and stability. We use two indicators: whether the worker has a written contract, and whether the job is permanent or the duration of the contract/agreement is more than 12 months.

The *fourth* dimension is job satisfaction. We used two indicators: satisfaction with his/her main job, and whether the worker would like to change his/her current employment situation.

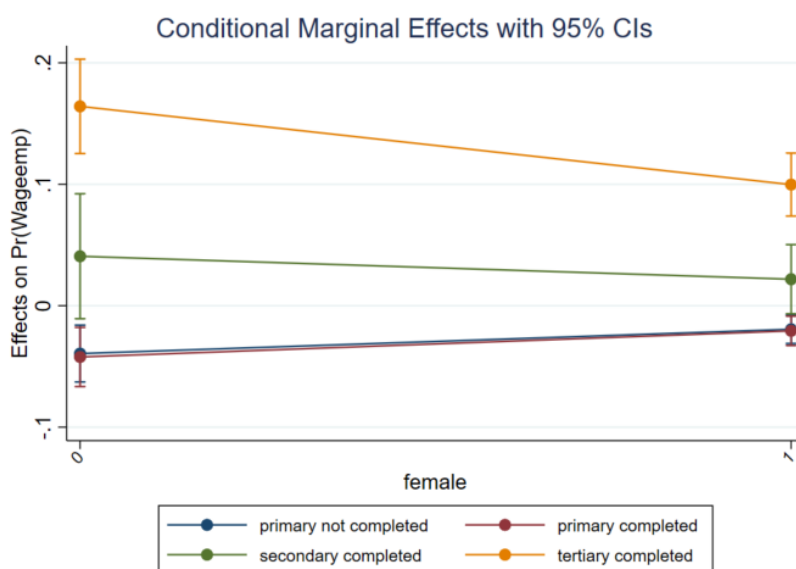
The *fifth* dimension is the under or over-employment of the person. We computed three indicators: number of hours worked per week for the main occupation being above the 40 hours (over-employment); whether the worker has another activity that takes more than 5 hours per week; an indicator equals 0 if the worker would have liked to work more hours (under-employed) or has been looking for extra work. These indicators cannot be used for any type of work, in particular, job benefits and security/stability can only be computed in the case of an employee, either working for a farm, a business or a household enterprise.

DIMENSIONS	INDICATORS
INCOME	<ul style="list-style-type: none"> ▪ Earnings are above the average national earnings ▪ Household is not considered as poor
JOB BENEFITS	<ul style="list-style-type: none"> ▪ Worker has an annual paid leave and/or paid sick leave ▪ Worker has a social security contribution
SECURITY/STABILITY	<ul style="list-style-type: none"> ▪ Worker has a written contract ▪ Worker has a permanent job or a contract/agreement for more than 12 months
SATISFACTION	<ul style="list-style-type: none"> ▪ Worker is satisfied or very satisfied with his/her main job ▪ Worker does not want to change his/her current employment situation
UNDER/OVER-EMPLOYMENT	<ul style="list-style-type: none"> ▪ Whether the worker works a number of hours that is above 40 hours per week in his/her main job (1 if no, 0 if yes) ▪ Whether the worker has another activity that takes more than 20 hours per week (0 if yes, 1 if no) ▪ Whether the worker would have liked to work more hours or have been looking for extra work in addition to the current activities (0 if yes, 1 if no)

2.3. Inclusiveness of jobs: the private wage sector is skewed toward urban, male and educated population

The wage sector favors young, educated men. When looking at the probability of getting a wage job (see Table 9 in annex), the analysis shows that on average, women have an 8 percent lower probability of accessing a wage job, and probability even lower for married women (an additional -3.5 percent). Regardless of gender, the return on primary and secondary education is low, while return is much higher for tertiary education. Indeed, the probability of getting access to a wage job decreases by 1 to 4 percent with attendance and completion of primary school compared to no education, regardless of gender. The analysis does not show a statistically significant coefficient for completing secondary school (though the coefficient is positive). The coefficient on tertiary education is positive and statistically significant: having a tertiary degree increases the probability of accessing a wage job by 16 percent for men and by 10 percent for women (see Figure 7). Age also exhibits a negative and significant, though small, coefficient: the change in probability of being employed for one extra year of age decreases by 0.2 percent for men and 0.1 percent for women.

FIGURE 7: INCREASE IN THE PROBABILITY OF ACCESSING A WAGE JOB BY GENDER AND EDUCATION
(BASE: NO EDUCATION)

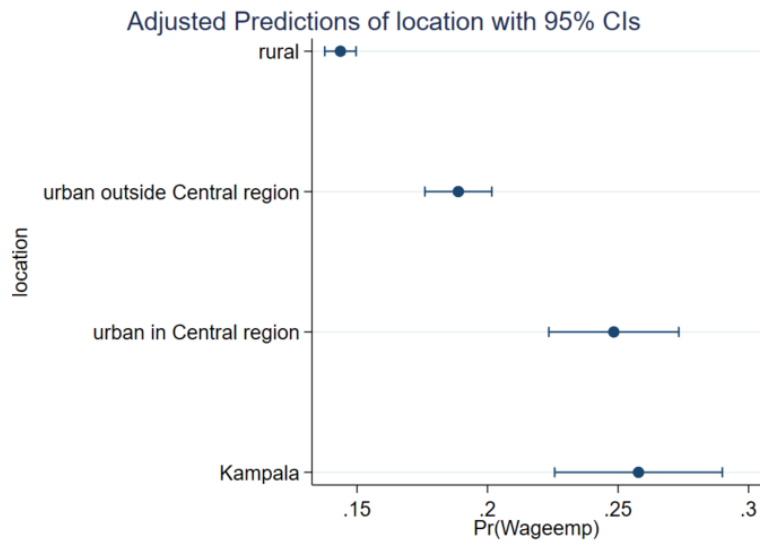


Source: UNHS (2016/17). Note: this graph presents the marginal effect of accessing a job when the predictor (here the education achievement) increases by one unit compared to a base case (no education). The other variables are at their mean values. Control variables include: age, marital status, size of the household, industry and location.

Private paid jobs are distributed relatively evenly across the country. Analysis using the household surveys defines four location categories: Kampala, urban area in the Central region, urban areas outside the central region, and rural areas. Half of paid jobs in private businesses, farms, and private households are in rural areas, while Kampala accounts for only 10 percent. If we remove the agricultural sector, rural areas still account for 40 percent of private paid jobs while Kampala still accounts for only 18 percent.

The probability of getting a job is higher in Kampala and surroundings. Analysis investigates the probability of being a wage worker with regards to location, again, whether in Kampala, urban centers in the central regions, urban centers outside the central regions, and rural areas. The analysis indicates that, holding all other variables at mean values, the probability of getting a private paid job in Kampala is 26 percent; in urban centers in the central region 25 percent; in urban centers outside the central region 19 percent; and in rural areas 14 percent.

FIGURE 8: PROBABILITY OF GETTING A WAGE JOB BY LOCATION



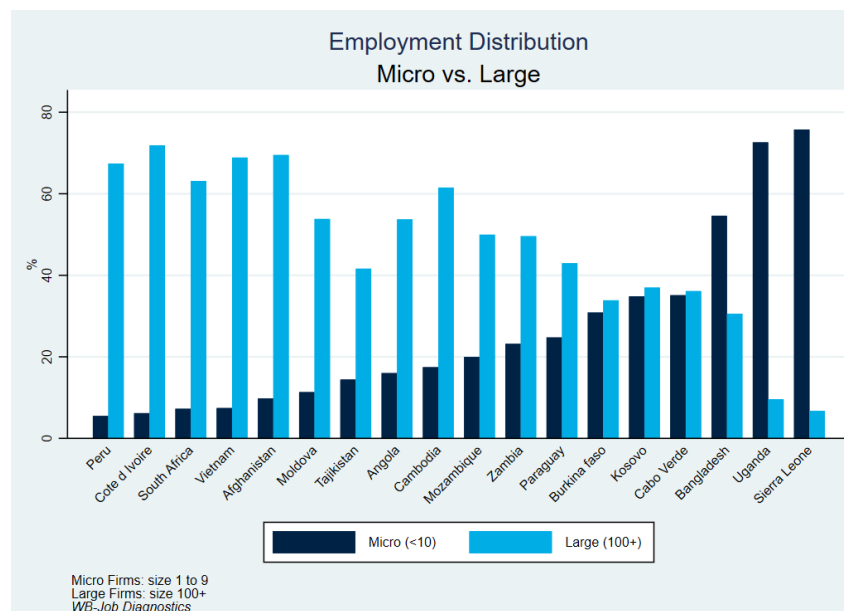
Source: UNHS (2016/17). Note: this graph presents the probability of getting a job holding all other variables at their mean values besides the location. Control variables include: age, marital status, gender, education achievement, size of the household, industry and location.

3. DEFINING THE POLICY AXES FOR JOBS

3.1. Policy Axis 1: Developing an economy that attracts or nurtures larger firms

The Ugandan economy is comprised of very few large firms which is unusual compared to others. Large firms contribute only to 6 percent of employment and jobs are concentrated mainly in small firms (below 10 employees) (UNHS 2016/17). These results are similar to those computed by census data from 2002 and 2011. Figure 9 depicts the share of employment in micro firms (less than 10 employees) compared to large firms (more than 100 employees) based on census data from a number of economies. As Figure 9 shows, Uganda is unusual regarding distribution of employment by firm size. Indeed, among 18 countries, large firms' contribution to employment in Uganda is the lowest. Paid jobs are disproportionately concentrated in micro-firms.

FIGURE 9: CONTRIBUTION TO EMPLOYMENT FOR MICRO AND LARGE FIRMS



Source: Censuses.

Uganda needs more large firms to provide wage jobs at large scale to keep pace with population growth. In most high- and middle-income countries, employment is concentrated in large firms. On average, micro firms (below 10 employees) in OECD countries accounts only for 16 percent of employment². These same OECD economies rely on large firms (above 250 employees) to employ workers, with the United States being the country with the highest concentration of employment in large firms (about 60 percent).

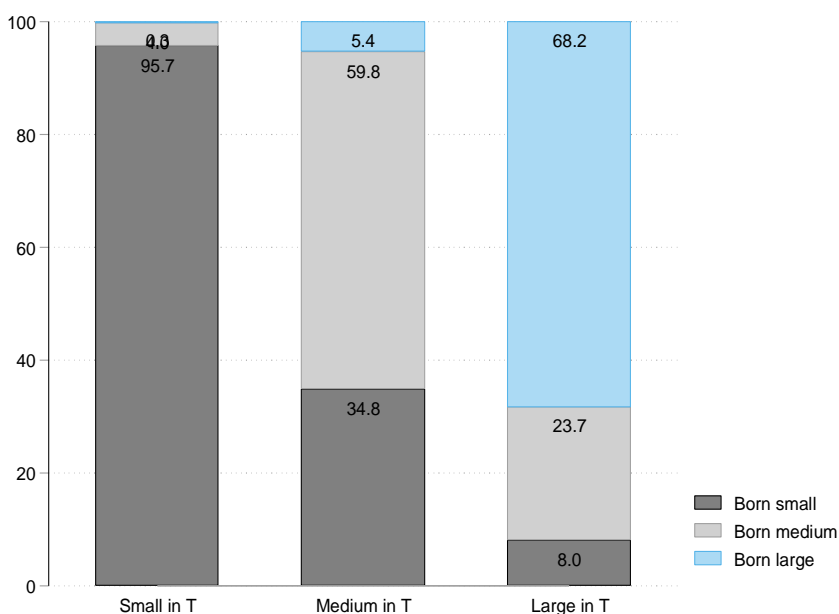
Large firms tend to provide better jobs. Evidence from a pool of 26 countries (IFC Report “Large firms in Development, 2019) indicate that large firms pay higher wages on average. These firms attract workers with better education, and hence are more productive, which could explain the higher wages. However, the same paper suggests that this wage premium is also higher in lower-income countries. Moreover, large firms are more likely to provide non-pecuniary benefits, such as written contracts, health insurance,

² Employees are all people covered by a contractual arrangement, working in an enterprise and receiving compensation for their work.

or other social security benefits. Based on UNHS (2016/17), we find similar results: workers are more likely to have a formal job (have a written contract, sick leave, or health insurance) if they work in large firms. Working in a large firm (above 100 employees) increases the probability of having a formal job by nearly 60 percent compared to working in a firm with less than 10 employees.

Evidence from other countries suggest that large firms partly originate from a natural cycle of growth. In a seminal paper, Hsieh and Klenow (2014) investigate firm cycles in the US, India, and Mexico. They found that surviving firms in the US grow six to eight times in size over their first 40 years, growing from small to large, while surviving firms in India and Mexico only doubled. Similar results are found in Colombia, where surviving plants tripled on average in 25 years (Eslava and Haltiwanger, 2017). This literature shows that large firms can originate from young firms, but these young firms also seem to face growth barriers in developing countries. Other studies also (de Mel et al, 2008; Freund and Periola, 2015; Sutton et al. enterprise mapping project, WB presentations) indicate that in most developing countries, large firms start large and transition from small to large is rare. Understanding the constraints that prevent firm transition from small to large from occurring in Uganda is thus critical for employment (see section 4.1.).

FIGURE 10: TRANSITION OF FIRM SIZE IN DEVELOPING COUNTRIES



Source: Tran, T.T., Hebous, S. and Timmis J. (2019) – not published – based on seven censuses (Vietnam, China, Indonesia, Serbia, Cote d’Ivoire, Ethiopia and Morocco).

Note: Pooled sample of all censuses. Cohorts of firms who entered within the sample period and survived in last year of sample. Small, Medium and large indicate employment size: 0-20, 20-100 and 100+ respectively.

High-growth firms are a stepping stone to large firms, but also contribute massively to employment. High growth firms (HGF) are firms in transition, going from small to large. They are also powerful engines of employment growth. Indeed, HGF represent 20 percent of all firms, but contribute to 80 percent of all new sales and jobs (Grover et al., 2019). HGF have long thought to be small smart-ups in high-tech sectors growing at a high pace over a sustained period. But Grover et al. found in 2019 in studying 11 countries that they are young but in operation for at least a couple of years, and can be found in very

different sectors depending on the country – not necessarily in high-tech sectors – and they experience short-lived and episodic growth episodes. This suggests that given the high prevalence of micro-firms and self-employment, Uganda has a comparative advantage in supporting young firms to develop into HGFs.

Where there are many micro-firms and self-employed workers, not every head of an enterprise has the entrepreneurial capacity to develop a high-growth or large firm. In Uganda, the analysis shows large disparities across household enterprises (Table 10 in annex). Looking at sales (or value added) as dependent variables, the analysis highlights a couple factors explaining different performance outcomes:

- (i) More mature firms earn about 32 percent more than young firms (0-5 years).
- (ii) The region where the household enterprise operates also matters: the central region appears more conducive for business than any other region in the country. Unsurprisingly, on average, household enterprises located in the northern part of the country earn 60 percent less than firms located in the central region (after controlling for sector, and firm and owner characteristics).
- (iii) There is an important pay-off on education: more educated people appear to operate more successful businesses.
- (iv) Unsurprisingly, household enterprises in agriculture and mining have the lowest revenues. On the other hand, they are also the sectors most likely to employ additional workers.

These results confirm findings in other countries: transformational entrepreneurs are driven by business opportunities, more educated, more motivated, and willing to take risk (Schoar, 2010).

Uganda needs to support fewer firms but support these few firms more intensively. Uganda has a long history of supporting a large pool of self-employed and micro-firms. Many government-led programs, such as the Youth Livelihood Program or Uganda Women Employment Program, provide entrepreneurship support, such as loans for a business idea. Technoserve, Enterprise Uganda, or Experience Educate train youth in life and business skills. It has been replicated by other donors and NGOs all over the country. As a result, a myriad of programs for small-scale entrepreneurs provide technical assistance, and business and soft skills to youth. But as shown above, the private sector is comprised of micro firms and self-employed, illustrating the limits of this strategy. This is not unique to Uganda: many experiments have shown the limits of supporting micro-enterprises and own-account workers (see Box 4). Interventions in this area do not translate into additional jobs but can, in the best of cases, increase revenues for participants. On the other hand, other experiments (McKenzie, 2017; Campos et al., 2017; Anderson-McDonald et al.) applying more intense screening of participants and substantial support and have led to high job creation. As McKenzie (2017) suggested, an intense screening process can combine with addressing main binding constraint that prevent high-growth firms from realizing their full potential. Hence, the high prevalence of micro-firms and self-employment in Uganda is evidence of entrepreneurial dynamism, but also shows the necessity better targeting to support firms with potential to transition and grow.

Box 4: WHY ARE MICROENTERPRISES NOT CONTRIBUTING MORE TO JOB CREATION?

Are microenterprises capital-constrained? De Mel et al (2008) tested one of the barriers to microenterprises' growth, capital constraint, by providing small-sized grants to entrepreneurs. The authors found that only a few firms could transition to larger scale and that capital was not enough to explain why these microenterprises are not growing and hiring workers.

Are microenterprises knowledge-constrained? Besides capital, economists and practitioners often identify the lack of technical and business knowledge as one of the main limits to microenterprise prospects. Many

initiatives have provided technical and business training. Evidence suggest that training programs have limited impacts on sales and profits, and none on job creation (McKenzie and Woodruff, 2013).

Are there frictions in labor markets that prevent microenterprises from hiring? In a recent paper (De Mel et al, 2016), microenterprises in Sri Lanka were offered a wage subsidy equivalent to roughly half of the wage of an unskilled worker and for six months. A long-lasting effect would signal the presence of frictions. However, the results indicate that after four years' post-subsidy, there is no effect on employment, firm profitability, or sales, implying that there is no sign that labor markets are not functioning well for microenterprises.

Microenterprises are not necessarily employing more people because owners do not have the appetite for expansion. Some business training programs now focus on developing personal initiative rather than teaching business knowledge. The assumption is that some entrepreneurs lack cognitive, affective, and motivational tuning to solve entrepreneurial challenges (Glaub et al., 2012; Campos et al., 2017) and expand.

Another possible explanation, yet untested, relates to the choice of the market in which microenterprises operate. Interviews with the self-employed or owners of microenterprises suggest that choice of sector in which they operate is usually based on perceived gains of relatives or friends operating in this same sector. This choice is not made following considerations of market size, demand from customers, and/or comparative advantages. This can explain why many microenterprises go bankrupt relatively quickly.

Overall, it is likely that job seekers willing to try entrepreneurship and microenterprises both face multiple constraints, as listed above. Support for this segment should probably go beyond a single intervention to consist of a package of different instruments depending on the number and type of constraints identified.

For jobs, “superstar” firms matter - but who are they? Developing economies are often driven by a handful of firms that exhibit exceptional growth rates (Eslava and Haltiwanger; 2017): in Colombia, at age 30, the 90th percentile of firms was 6.8 times its size at birth compared to 3.1 times bigger than birth for the median firm. Though smaller than the superstar firms in developed economies (Bento and Restuccia, 2018), they can still play an important role in generating employment. Who are those superstar firms? Fernandes, Freund, and Pierola (2015) indicate that on average, the foreign share ownership of the top five exporters in 10 economies studied³ is 65 percent, thereby highlighting the role of multinational companies foreign direct investment (FDI) in a country. Moreover, a series of Enterprise Maps (Sutton et al.) highlight the role of trading companies as a seedbed of industrial development. In Ghana, just under half of the 27 domestic top private firms started as local trading companies operating for years before venturing into manufacturing (Sutton and Kpentey, 2012). The authors note that it is less difficult to acquire manufacturing technology knowledge than to understand local and international markets and value chains.

Uganda has few large firms, which evidence from both developed and developing economies suggest are critical for more and better jobs. Growing firms from a large pool of micro and small firms appear to be difficult, in particular in developing economies – but not impossible. Uganda could leverage its entrepreneurial dynamism and nurture young and small firms. **What is currently preventing them from growing?** Public policies should also attracting FDI or multinationals, which constitute a large share of “superstar” firms and exporters in developing economies. **Why are foreign-owned firms not contributing more to employment?**

³ Botswana, Bulgaria, Colombia, Costa Rica, Jordan, Madagascar, Pakistan, Peru, Tanzania and Uganda.

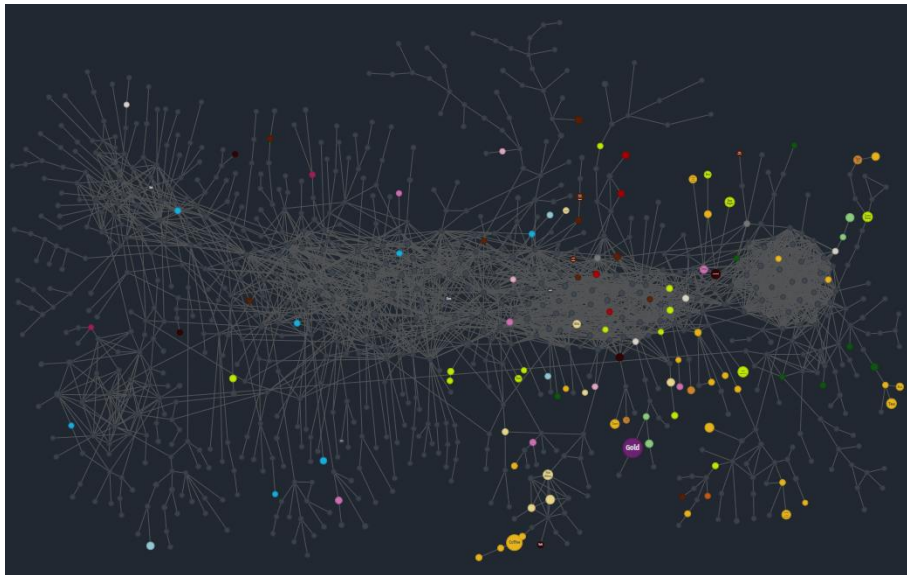
3.2. Policy Axis 2: Diversification: a driving force for exports and integration

As an agrarian economy, Uganda is very vulnerable to increasing climate variability and shocks. First, the agriculture sector employs about 70 percent of the population, and agricultural products are their main source of revenues for about 50 percent of households (Table 2). In 2016, agricultural output plummeted, resulting in widespread food insecurity, largely a result of drought and pests. According to the latest Uganda National Panel Survey (UBOS 2017), poverty rates rose to 27 percent by September, 2017. Seasonal rainfalls have become more variable and less predictable. In general, extreme events such as droughts, floods, and landslides are projected to become both more frequent and intense (WB, 2018). Second, the role of agriculture in exports is extremely high and commodity markets are the most volatile. In 2016, agricultural exports accounted for 49 percent of all export value (Uganda Bureau of Statistics). These exports also represent about 20 percent of the country's total foreign exchange earnings from exports of goods, services, and transfers.

Diversifying an economy like Uganda's could support stability and resilience from shocks, with positive effects on livelihoods and revenues from exports. With a very vulnerable economy, Uganda could benefit from diversifying its industrial structure with a combination of manufacturing, trade, and services away from the dominant agricultural sector. Evidence suggests that resource-rich countries have been more successful in promoting accelerated and sustainable economic growth when diversifying its economy away from agriculture and oil (WB, 2015). For instance, Malaysia welcomed FDI and became a successful manufacturing country; and Indonesia aided low-cost textiles and footwear industries with good results (WB, 2015). By contrast, Angola, Nigeria, Libya, and Venezuela have not succeeded in diversifying their economies and report lower per capita growth.

The level of sophistication of Ugandan exports reflect low economic diversification. The level of sophistication of an economy can be depicted using a "product space" (see Box 5). A product space visualization is divided into a core and periphery with products located in the core being more sophisticated—that is, at the crossroads of many capabilities—like chemicals, machinery, and metal products. Products at the periphery are less sophisticated, like petroleum, raw materials, agricultural products, animal products, cereals, labor-intensive goods, and capital-intensive goods (excluding metal products). What does the product space of Uganda tell us? Most products exported are located at the periphery of this map, with very few at the core, confirming that the level of sophistication of Ugandan exports is very low.

FIGURE 11: PRODUCT SPACE FOR UGANDA



Source: Observatory of Economic Complexity.

Box 5: DIVERSIFICATION AND PRODUCT SPACE

The Production Space represents a visualization of the relatedness of products traded in the global economy. This methodology was developed by Cesar A. Hidalgo, Bailey Klinger, Ricardo Hausmann, and Albert-Laszlo Barabasi and further promoted by the Observatory of Economic Complexity. It illustrates the structure of an economy and products in which to invest and diversify.

In a product space visualization, each circle depicts a product, and the size of the circles is proportional to the product's share of world trade. Each product group is represented by different colors. The figure also shows how "close" the products are to each other, with proximity reflecting whether they are co-exported or not. The rationale is that for countries trying to develop a range of capabilities, it is easier for a country to diversify in economic sectors with similar capabilities. For example, the link between shirts and pants is stronger than between shirts and iPods, hence it will be easier for a country producing shirts to diversify into pants.

Low sophistication leads to low integration of leading firms in the economy, hence confining job-related export impact to direct employment. Export growth can be a powerful avenue to increase employment and earnings, both directly within exporting firms and indirectly through these firms' demand for goods and services from the domestic economy. The extent to which exports support domestic labor depends on several factors including labor-intensity of export sectors, and exporting firms' linkages to domestic input-supplying firms. But exporting industries in Uganda are not well integrated into the overall economy: few backward and forward linkages exist, which diminishes the positive effects of exports on indirect job creation. Uganda pays substantially more wages directly for export production (\$1.0 billion) than indirectly for backward and forward linkages (\$360 million). This is similar to other comparator countries like Rwanda, Kenya, Benin, Ethiopia, and Tanzania. The only comparator countries that stand out in terms of indirect wages are Cote d'Ivoire (\$3.1 billion direct versus \$2.4 billion indirect) and Cameroon (\$1.4 billion direct versus \$0.9 billion indirect).

Have more Uganda exporters would increase the number of large firms, having more backward and forward linkages, thus fostering higher productivity for local firms. Using datasets collected by the

Ugandan Revenue Authority of the entire formal sector and all direct-exporting firms—in 2014, about 3,000 firms exporting out of 83,000—Spray (2017) shows that exporters in Uganda are larger and employ more people than non-exporting firms. Second, exporters in Uganda appear more interconnected to the rest of the economy than non-exporters (Spray, 2017): exporters have 160 percent more suppliers than non-exporters (see Table 5). Empirical analysis also suggests that exporting affects export supply chain in three ways: (i) exporting leads to spillovers in productivity to domestic suppliers; (ii) new exporters increase both domestic input and foreign import usage; and (iii) new and smaller exporters replace unproductive suppliers with more productive domestic suppliers, which is not the case for more mature exporters. Overall, Spray (2017) makes a strong case for facilitating establishment of new exporters, indicating that these new exporters generate more employment, boost productivity of local suppliers, and enhance market functioning by pushing out low-productivity suppliers.

TABLE 3: DESCRIPTIVE STATISTICS FOR SELECTED VARIABLES

	COEFFICIENTS
LN ANNUAL TOTAL OUTPUT	1.905*** (0.0373)
LN OUTPUT PER WORKER	1.009*** (0.0320)
LN ANNUAL TOTAL INTERMEDIARY INPUTS	1.0916*** (0.0289)
LN ANNUAL TOTAL IMPORTS	2.000*** (0.0400)
LN NUMBER OF SUPPLIERS	1.609*** (0.00920)
LN ANNUAL TOTAL PAY	1.368*** (0.0191)
LN ANNUAL TOTAL EMPLOYEES	0.975*** (0.0155)
SUPPLIER LN OUTPUT PER WORKER	0.117*** (0.0171)

Source: Spray, 2017

Note: Standard errors in parentheses: *p<0.05, ** p<0.01, *** p<0.001; regression coefficients after controlling for industry.

Evidence suggests that manufacturing is a higher contributor to employment than services; but identifying specific job creating sectors is difficult and depends on the country. Bento and Restuccia (2018) constructed a dataset of both manufacturing and service establishments from economic census data and national surveys. They concluded that service firms are, on average, three times smaller than manufacturing firms. Can we look more closely? In another paper, Chen et al. (2015) looked at jobs related to FDI in manufacturing and found no sector stands out for job creation in countries studied. Large firms (more than 1,500 employees per firm) entered the economies in some sectors, but they are rarely the same sectors across countries. Large firms entered the textile, clothing, leather, and footwear sectors in Ethiopia; and the non-metallic mineral products sector in Kenya and Tanzania. Rwanda attracted very large investments in chemicals and pharmaceuticals, electrical, and electronic equipment, and machinery equipment, each generating more than 2,000 jobs per investment (Chen et al., 2015).

Based on the product map, diversifying into light manufacturing is realistic for Uganda, offering large opportunity to increase employment and create backward and forward linkages. The principle of the “product space” visualization is to assess distance and links between products, hence depicting the feasibility of diversifying into new products. Thorough review of Uganda’s (WB, 2015) product space reveals that Uganda has a significant presence in some peripheral “communities” of products, such as

tree crops and flowers, food processing, animal products, and fish and seafood. Uganda could leverage agricultural production to diversify into agriculture-related processing: cereals, dairy products, new cooking oils, and new sugar products (WB, 2015). Upgrading to agro-processing not only supports smallholders still heavily reliant on agriculture, but also other types of activities (transport, resellers, packaging, certification, among them) (WB, 2018). The country could also diversify into construction materials and equipment (WB, 2015). Textile and garments is another sector with potential for significant job creation and participation in global value chains. This sector offers large opportunity for gains as it does not require sophisticated skills, so can employ a large pool of unskilled and semi-skilled workers. However, it will not improve average level of complexity in Uganda (WB, 2015), and energy costs and lack of sea access erodes Uganda's comparative advantage in the sector (WB, 2016).

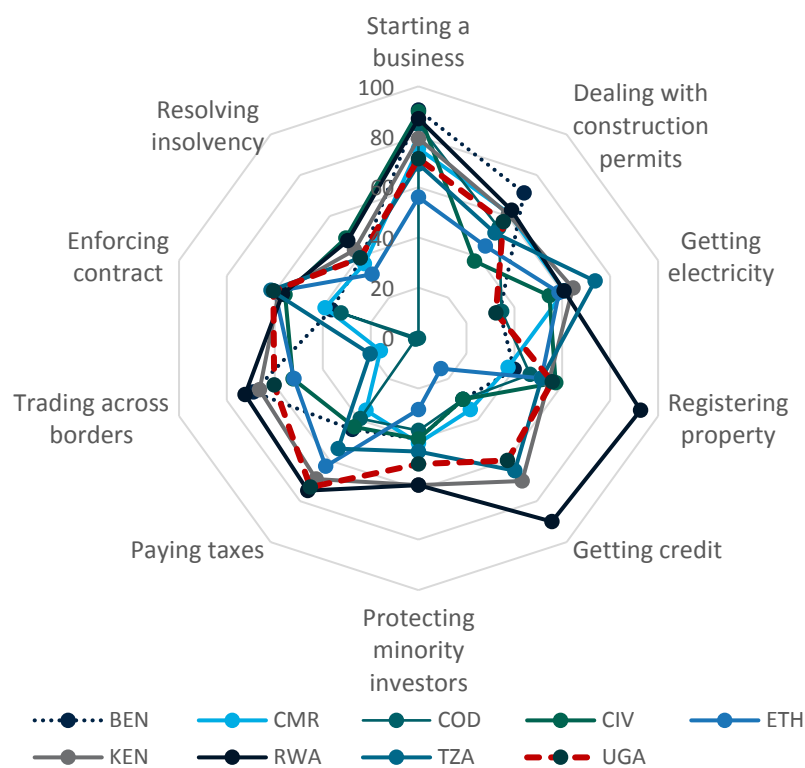
Diversification away from volatile sectors like agriculture is needed in Uganda to generate jobs more resilient to shocks. The level of sophistication of the Ugandan economy and exports is very low. The export sector can significantly contribute to employment since exporters are larger than non-exporters, but they can also play an important role in promoting local suppliers and increasing their productivity, hence spurring diversification. **What has so far prevented firms from exporting?** The agro-processing, construction and textile/garments sectors seem natural candidates for diversifying exports – although reports have highlighted challenges in these sectors (WB, 2015; WB, 2016 and WB, 2018).

4. MAIN CONSTRAINTS TO PRIVATE SECTOR-LED JOBS

4.1. What is currently preventing firms from growing? An uncondusive business environment for private sector development

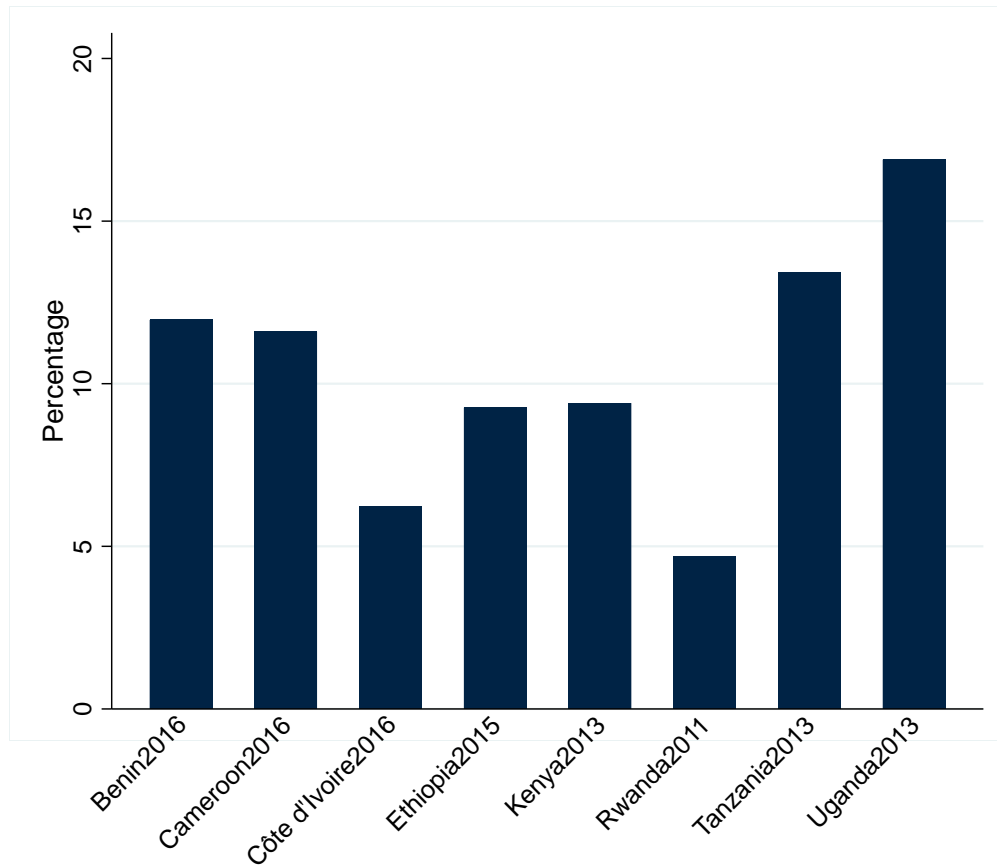
The business environment in Uganda does not fare well compared to comparator countries. In 2019, Uganda ranks 127th in terms of Doing Business – way behind Rwanda (29th) or Kenya (61th), but better than Tanzania (144th), Ethiopia (159th), Cote d’Ivoire (122nd), the DRC (184th), Cameroon (166th), or Benin (153th). But Uganda has made major strides in the indicator *Starting a business*, improving from 59.26 in 2010 to 72.25 in 2017 (a higher score signifying better regulatory performance). Electricity represents a binding constraint to investment (Figure 12), as confirmed by WB Enterprise surveys: the percentage of production lost due to power outage is highest in Uganda (Figure 13).

FIGURE 12: DOING BUSINESS IN 2017 (0 – 100 BEST)



Source: Doing Business (2017)

FIGURE 13: PERCENTAGE LOST DUE TO POWER OUTAGES (% OF SALES)



Source: Enterprise Surveys

Trade costs are high for imports. The Doing Business report indicates that Uganda is doing better than other Sub-Saharan countries when it comes to handling exports, both in terms of time and costs spent at border or with documentation. However, time and costs to import are similar to the Sub-Saharan average for both compliance at the border and for documentation.

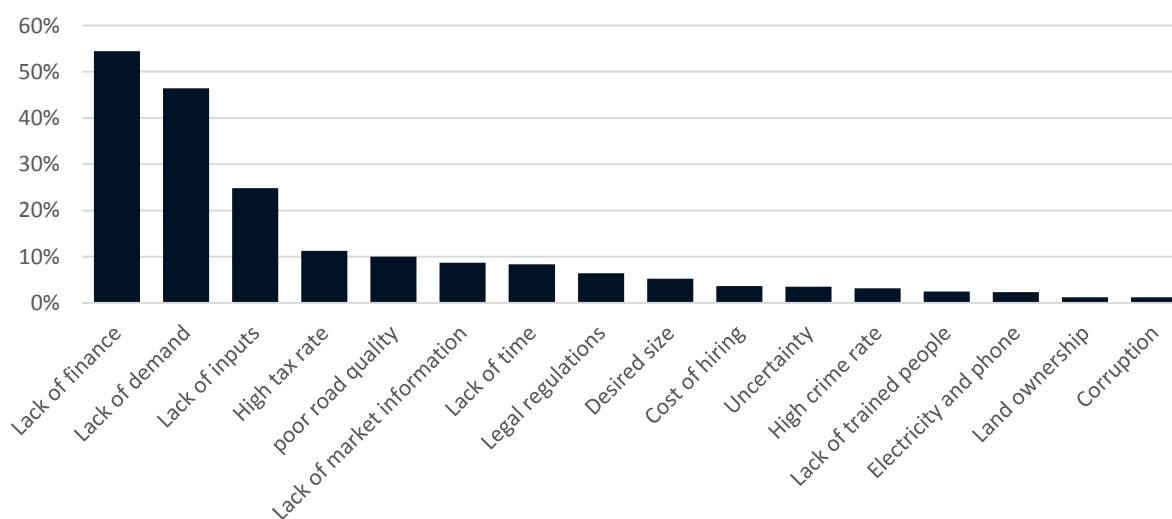
FIGURE 14: TRADING ACROSS BORDERS

Indicator	Uganda	Sub-Saharan Africa	OECD high income	Best Regulatory Performance
Time to export: Border compliance (hours)	59	97.3	12.5	1 (19 Economies)
Cost to export: Border compliance (USD)	209	605.8	139.1	0 (19 Economies)
Time to export: Documentary compliance (hours)	24	72.8	2.4	1 (26 Economies)
Cost to export: Documentary compliance (USD)	102	168.8	35.2	0 (20 Economies)
Time to import: Border compliance (hours)	145	126.3	8.5	0 (25 Economies)
Cost to import: Border compliance (USD)	447	684.3	100.2	0 (28 Economies)
Time to import: Documentary compliance (hours)	96	97.7	3.4	1 (30 Economies)
Cost to import: Documentary compliance (USD)	296	283.5	24.9	0 (30 Economies)

Source: Doing Business (2018)

The main constraints to growth for household enterprises are lack of finance, demand, and inputs, and increased competition. The constraints are similar for informal firms when comparing two survey instruments: UNHS for household enterprises, and the informal module of the Manpower survey for informal firms. The Manpower survey for informal firms indicates that their main constraints to expanding are: access to finance, lack of customers/marketing, and increased competition. Note that the Manpower survey did not suggest “lack of inputs” as a potential barrier to growth and that the UNHS did not suggest “increased competition” as a constraint to growth.

FIGURE 15: CONSTRAINTS TO GROWTH FOR HOUSEHOLD ENTERPRISES



Source: UNHS (2016/17)

Note: Question: “What factors have constrained the business owner’s ability to increase the size of the business to the desirable size”

Similarly, lack of market/customers and limited access to finance are top constraints faced by formal firms, along with non-payments of debts. According to the Manpower survey, 60 percent of formal private firms cite “lack of customers/market” as their main constraint, followed by payment of debts [by customers] (19 percent of firms), and access to finance (14 percent).

Constraints are similar across age and size groups, but intensity of constraints vary. Startups (less than five-years-old) face more difficulties accessing markets or gaining customers: 62 percent of them cite “lack of market” as their main constraints while this percentage is 54 percent for mature firms (more than 20-years-old). There is no difference in terms of access to finance. More mature firms tend to find payment of debts more problematic than do startups. Turning to firm size, there are slight differences: small firms seem to have more limited access to finance and markets, quite common in developing economies. The answers from large firms vary more, with access to land and taxes/fees reported as the main barrier by four percent and 3.25 percent respectively.

FIGURE 16: MAIN CONSTRAINT TO FIRM’S GROWTH BY FIRM AGE FOR FORMAL FIRMS

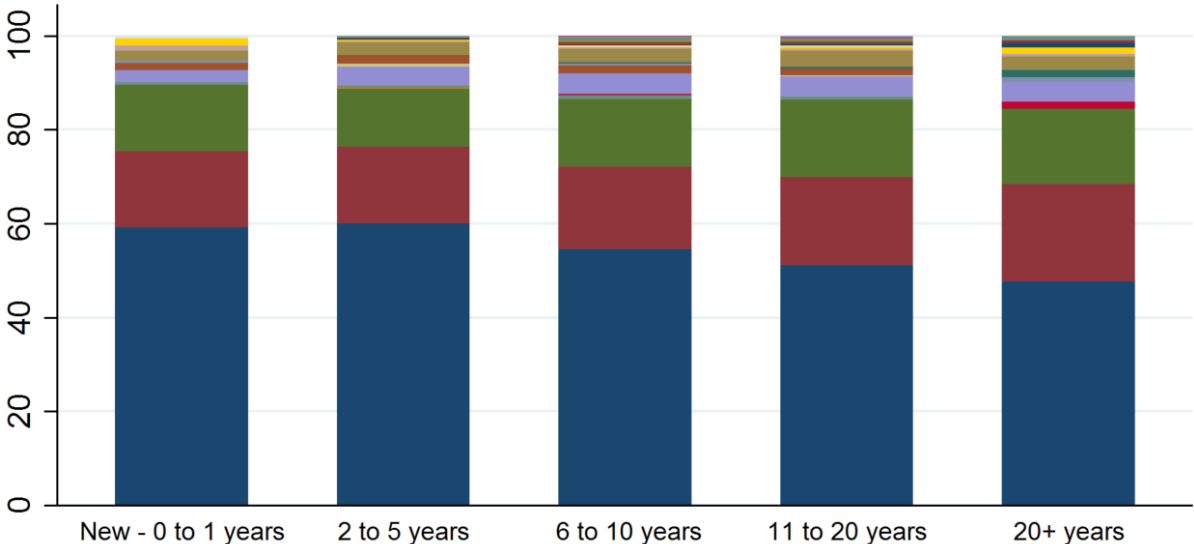
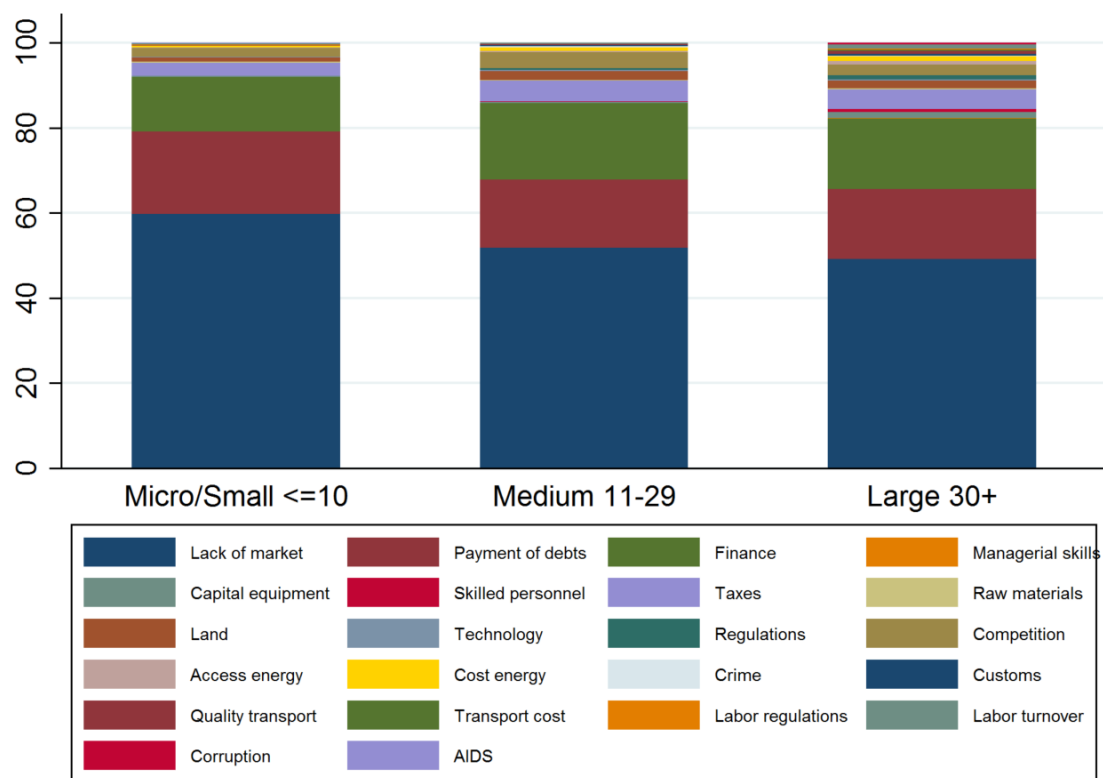


FIGURE 17: MAIN CONSTRAINT TO FIRM'S GROWTH BY FIRM SIZE FOR FORMAL FIRMS



Source: Author's calculations based on the Manpower survey (2016/17)

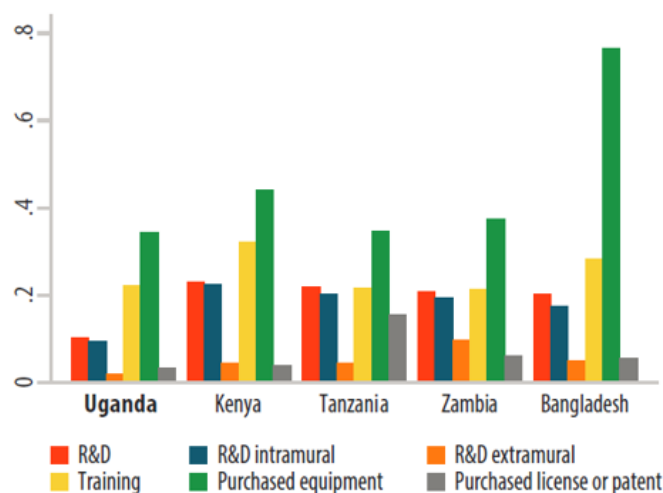
Note: Question: "What are the difficulties affecting the operation/growth of your establishment/enterprise"

Why a lack of market and customers? Different factors can explain why firms feel that they have limited access to markets. First, the domestic market is limited in size. When looking at GDP per capita (in constant 2010 USD) for Uganda and comparator countries, Uganda with 666 USD per capita is part of the group below 1,000 USD per capita with Benin, the DRC, Ethiopia, Rwanda, and Tanzania; while Kenya, Côte d'Ivoire, and Cameroon exhibit a GDP per capita above 1,000 USD.

Second, firms need to enter these markets, whether domestic, regional, or international, requiring marketing and business development knowledge: How to differentiate products from other products in the market? How to adapt a business model and/or product to the Ugandan context? How to define the market segment for this product? At a more basic level, how to choose the activity to start a business?

Third, firms may have difficulties entering a new market because of a lack of innovation – and hence competitiveness. Innovation is very low in Uganda compared to other countries. Uganda lacks financial incentives for innovation; there is no tax exemption or grant support for innovative products. The only government program seems to be the Annual Communication Innovation Awards that provide resources, linkages, and capacity for ICT innovations. Second, supporting structures for innovation are not distributed equally across the country. Makerere University and UIRI seem to be the main players in innovation, and both are located close to Kampala. Incubators are growing, but most of them are located in Kampala. Even in Kampala, however, these incubators appear to enter and exit the market quickly – although we have no data on incubator startups and failures.

FIGURE 18: INNOVATION INPUTS OF UGANDAN FIRMS (% OF FIRMS)



Source: WB (2018) based on Enterprise survey (2013)

Why limited access to finance? First, as shown on Figure 19, the level of firms with a current overdraft is very low: 9.8 percent compared to almost one-quarter for other Sub-Saharan countries. Interestingly, nearly half of respondents say they do not need a loan. Microfinance institutions are numerous in Uganda, but provide loans with very high interest rates. Commercial banks and the Uganda Development Bank lend at a very high rate of above 30 percent, and they require high collateral. While interest rates are not higher than other Sub-Saharan African countries, most loans require collateral in the form of land titles, which are very difficult to access in Uganda: only 20 percent of households have land titles. As a result, only a small fraction of firms have access to a bank loans or lines of credit, clearly limiting firms' abilities to expand.

FIGURE 19: ACCESS TO FINANCE

Table 3.6. Uganda Access to Finance Indicators vs. SSA and the World²⁴

Indicator	Uganda	SSA	All Countries
Percent of firms with a checking or savings account	86.7	88.1	88.2
Percent of firms with a bank loan/line of credit	9.8	23.8	36.5
Proportion of loans requiring collateral (%)	86.4	79.7	77.3
Value of collateral needed for a loan (% of the loan amount)	159.4	175.2	182.2
Percent of firms not needing a loan	41.9	34.1	40.9
Percent of firms whose recent loan application was rejected	7.7	15.3	14.5
Proportion of investments financed internally (%)	79.5	78.3	69.2
Proportion of investments financed by banks (%)	3.3	9.9	16.3
Proportion of investments financed by supplier credit (%)	3.2	3.9	5.1
Proportion of investments financed by equity or stock sales (%)	13.0	3.7	5.0
Percent of firms using banks to finance working capital	21.7	23.5	31.0
Proportion of working capital financed by banks (%)	7.0	9.9	12.6
Proportion of working capital financed by supplier credit (%)	3.5	7.2	10.8
Percent of firms identifying access to finance as a major constraint	20.2	43.0	30.8

Source: Enterprise Survey (2013).

Second, financing is lacking for startups micro firms. On one hand, microfinance institutions as well as government programs serve very small businesses (below UDS 30,000), and this same businesses usually can save money or raise funds from friends or relatives to start their business. In this area, livelihood programs are instrumental as training programs focused on money savings and fundraising. On the other hand, commercial banks (Stanbic, Centenary) provide loans to mostly mature SMEs (mostly above USD 200,000). However, the scope to increase this kind of lending is limited as these loans go to firms with

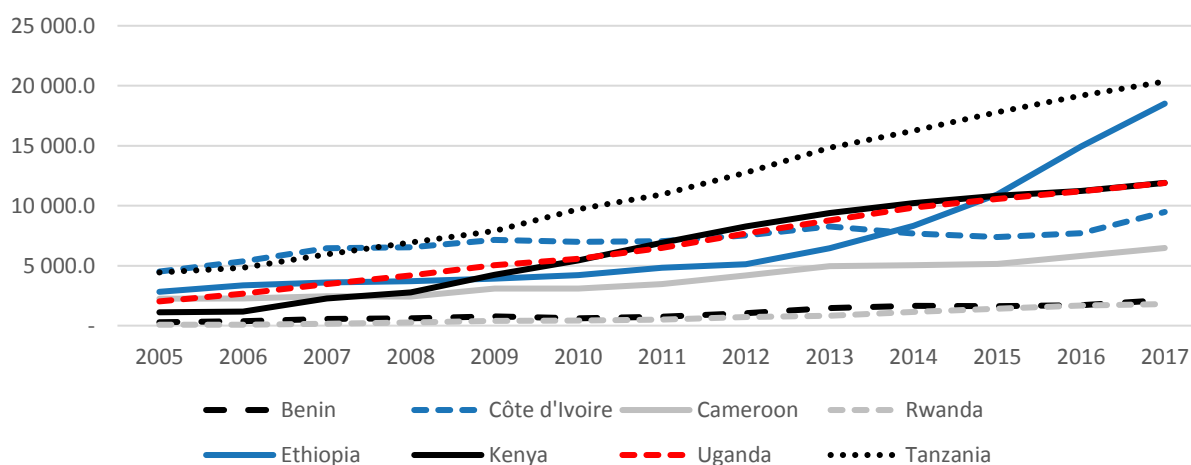
registered land titles, hence rather successful. As a result, startups and micro and small firms that could be generating jobs are not served by any financial institutions.

Why a lack of inputs? High-quality inputs in large quantities are lacking in the country. Indeed, interviews suggest that producers of high-quality inputs prefer selling raw materials to foreign buyers rather than to local manufacturers. It is not clear whether this is linked to prices or access to foreign currencies. Firms therefore have to import goods but this means paying high import duties, which decreases profitability.

4.2. Why are foreign-owned firms not contributing more to employment?

Uganda fares well compared to comparator countries in terms of FDI stocks and inflows. The stock of FDI in Uganda has multiplied five times over the past decade (UNCTAD, 2017). FDI into Tanzania has been highest on average over the past decade, followed by Ethiopia, Kenya, and Uganda. But for a small country like Uganda, FDI has been quite impressive. Indeed, in 2017, FDI as a percentage of GDP net inflows represent 2.7 percent, below Rwanda (3.2 percent) and Ethiopia (4.4 percent) (WDI, 2017), but above all other comparators. So, if FDI is flowing into the country, why are foreign-owned firms not contributing more to employment?

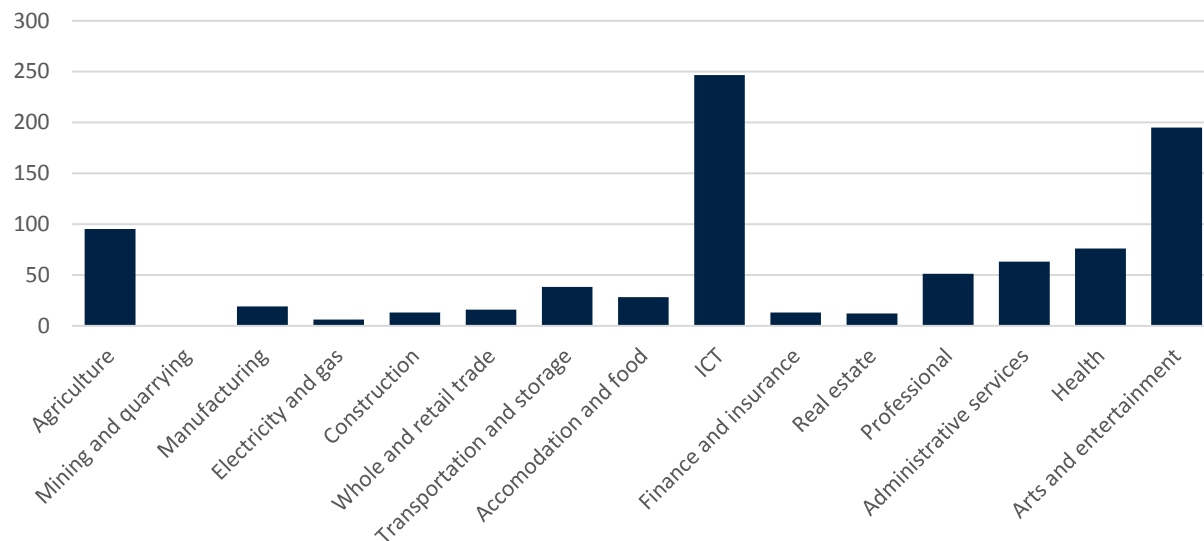
FIGURE 20: FDI INWARD STOCK, BY REGION AND ECONOMY, 2005-2017



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics)

FDI in Uganda is predominantly in mining, where job creation is low. Over the past decade, the main recipient of FDI has been mining and quarrying (Bank of Uganda, 2017). About 56 percent of FDI stock is mining and quarrying, followed by finance and insurance (11 percent of the stock) and manufacturing (10 percent of the stock). As suggested by the Bank of Uganda (2017), the job content of mining and quarrying is very low: only 984 jobs for 5.5 billion USD; that is, just 0.2 jobs per million USD in stock. Finance and insurance and manufacturing have a higher job content (13 and 19 respectively), but far below other sectors. ICT, arts/entertainment and agriculture appear to have high employment potential with 247, 195, and 95 jobs per million USD in stock respectively. For manufacturing, Chen et al. (2015) suggest that the sector varies in terms of job creation, but metal and metals products, food and beverages, motor vehicles, and consumer products significantly contribute to employment in Uganda.

FIGURE 21: JOBS PER MILLION USD IN STOCK (2016)



Source: Author's calculation based on PSIS (2017)

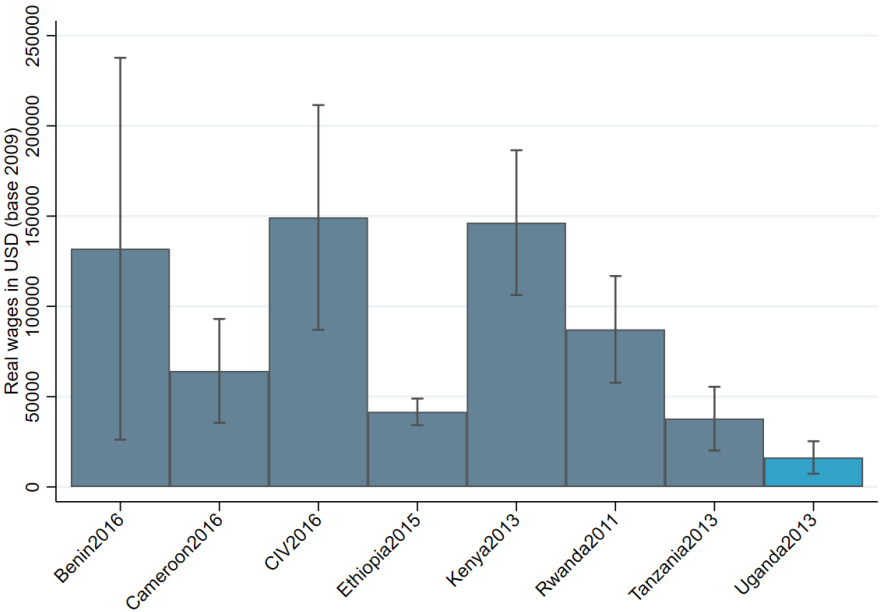
What are the main determinants of FDI inflows? As analyzed by the WB (2018c)⁴, in the first phase of the investment life cycle (that is, investment exploration and location decision), having a business-friendly legal and regulatory environment is important for investors. Indeed, just under 90 percent of the respondents indicate that Legal and regulatory environment is “critically important” or “important”. When it comes to actual investment and establishment in the country, the same survey shows that lack of efficient procedures seems to be the main bottleneck to investment, even more so than factors such as investors’ ability to own all equity in a project, to easily bring in expatriate staff, and to import production inputs. As illustrated previously, Uganda fares quite poorly for the indicator Starting a Business, which explains the low level of FDI outside extractive sectors. Other determinants have been investigated. Chen et al. (2015) show that access to natural resources, low cost of labor, and market size matter most when for attracting FDI. How well is Uganda doing with regards to these three factors?

Uganda is rich in natural resources, in particular agricultural products for manufacturing; but the agriculture sector is impeded from realizing its full potential. Uganda’s tropical climate, abundance of rainwater, and fertile soils provide an inherent comparative advantage in agricultural production (WB, 2016), explaining the prevalence of agriculture in household livelihoods. However, high quality agricultural products need to reach firm gates in a timely fashion, but like many other sub-Saharan countries, Uganda producers struggle from a lack of producer organization, low productivity, poor quality inputs, informal outsourcing, insufficient storage, and lack of sufficient cold chain logistics (WB, 2018). U To harness its rich potential in natural resources, Uganda needs to improve substantially product quality and ability to commercialize farm products.

⁴ A survey was commissioned by the World Bank Group as a companion piece of the IGC report and information on the views and behavior of global investors that goes beyond anecdotal evidence. Phone interviews were conducted between February and June 2017 with 754 international business executives involved in operations of their multinational corporation in developing countries.

Low labor costs and relatively high productivity make Uganda an ideal destination for labor-intensive manufacturing. World Bank Enterprise surveys compare the labor costs across countries⁵. As illustrated in Figure 22, average wages are lower in Uganda. The country could potentially attract investors that seeking inexpensive labor, especially for labor-intensive manufacturing sectors. Another measure is to assess firm performance using unit labor costs. Calculated as total labor cost divided by value added, this indicator reflects the level of labor productivity compared to level of wages. Unit labor costs are higher when high labor costs are not fully reflected in high productivity; that is, when unit labor costs are high, all else equal, workers are earning higher wages than their productivity would justify. When this is the case, all else equal, firms find it difficult to compete in international markets. Figure 23 shows unit labor costs for Uganda’s comparator countries: unit labor costs for Uganda are in the bottom of the distribution, between Kenya and Ethiopia, suggesting that Uganda has a strong comparative advantage when it comes to labor and labor-intensive sectors.

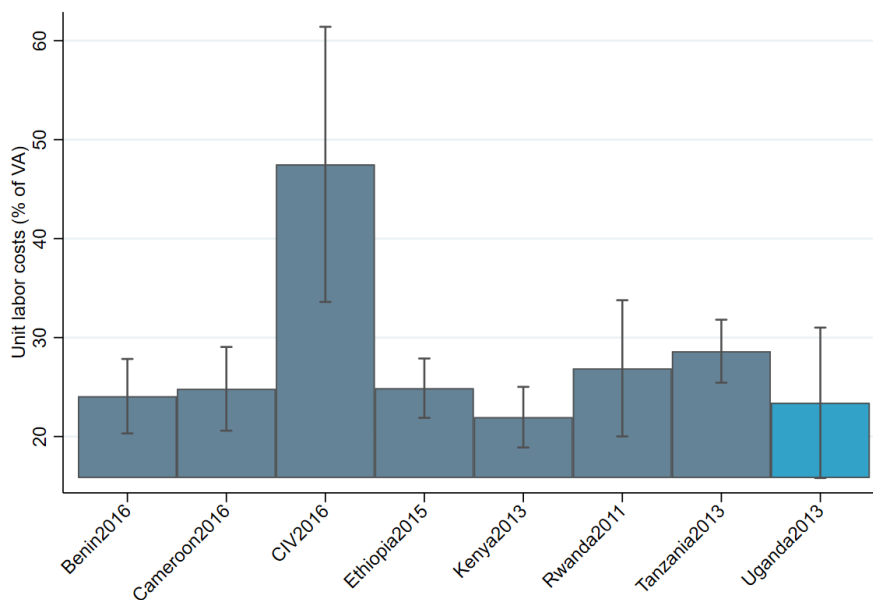
FIGURE 22: REAL AVERAGE ANNUAL LABOR COSTS PER WORKER IN USD (BASE=2009)



Source: authors’ calculations based on WB Enterprise Surveys.
 Note: the vertical lines represent the confidence interval at 95 percent. The variable used is the wage bill divided by the number of employees.

⁵ We use the following comparator countries: neighboring countries the DRC, Rwanda, Kenya, Ethiopia, and Tanzania; and other similar countries according to the methodology developed by the Trade team: Cameroon, Côte d’Ivoire, and Benin.

FIGURE 23: UNIT LABOR COSTS (AS % OF VALUE ADDED)

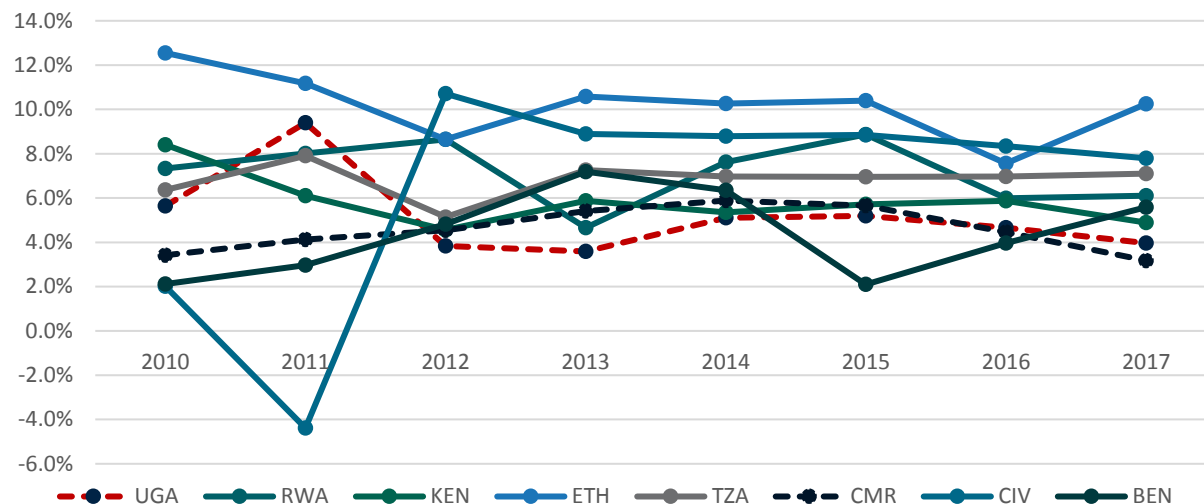


Source: authors' calculations based on WB Enterprise Surveys.
Note: the vertical lines represent the confidence interval at 95 percent.

Uganda is a small market but with large opportunities for regional or international integration. Uganda is a small market compared to other neighboring countries in terms of the size of its economy (half of Ethiopia or Kenya's GDP). The economy is also not growing as fast as the comparator countries, except for Cameroon, which experienced a slower growth rate in 2017 (see Figure 24)⁶. Contrary to a market like Nigeria, the current size of Uganda's market could not attract investors looking to sell to a domestic market. Rather the investors would be interested in outward market strategies, and Uganda can count on multiple trade agreements that open regional and international markets, including the East African Community (EAC). The EAC customs union, signed in 2005, lowers trade barriers through elimination of tariffs for goods meeting EAC Rules of Origin (RoO), elimination of non-tariffs barriers, and establishment of a common external tariff. Uganda also benefits from being a member of the Common Market for Eastern and Southern Africa (COMESA). It is also a signatory of both the US African Growth and Opportunity Act (AGOA) and the ACP-EU Cotonou Agreement which gives Uganda preferential access to both the US and the European Union. As shown by its small neighboring country Rwanda, Uganda does not need a huge market to attract FDIs: a conducive business environment combined with a capacity to serve regional markets as well as main international consumption hubs is enough. Rwanda and Uganda have similar trade agreements.

⁶ Let's note that its population is similar to Kenya (42 million and 50 million respectively), suggesting that higher growth rates could stimulate national consumption, translating into a larger domestic market.

FIGURE 24: ANNUAL GDP GROWTH (%)



Source: World Development Indicators

Public policies support FDI, but only indirectly. Uganda has an open foreign investment environment. The Ugandan constitution specifies that there will be no discrimination between foreign and domestic investors: “Every person [foreign or domestic] in Uganda has the right to practice his or her profession and to carry on any lawful occupation trade or business”. There is no restriction on what for share of foreign ownership in an enterprise, and restrictions on investment sectors are limited to crop and animal production. However, there is also no special treatment for FDI, including no specific fiscal incentives. Fiscal incentives usually focus on fostering agricultural products and on the export sector (see Table 13 in annex). For instance, the GoU grants 10-year tax holidays for exporters, a 100 percent tax deduction on research and training as well as mineral exploration costs, and exemptions on income tax for income derived from agro-processing. Recently, the government also adopted a five-year income tax exemption for developers and operators in industrial parks and free zones.

More could be done to attract FDI. Uganda has pursued considerable efforts to support foreign investors in Uganda. The Uganda Investment Authority (UIA) helps investors obtain licenses and fulfill other investment requirements (tax identification number, land title, certificates of incentives, and others). Foreign investors are also larger than domestic firms, hence have easier access to some resources or production factors. As a result, as shown in Table 11 in the Annex, constraints to growth—such as lack of land, finance, skilled labor—seem to be more surmountable for foreign investors than for domestic firms. Moreover, the EBiz web portal launched in 2016 enables entrepreneurs to perform most required registration online. Nonetheless, it still takes a month to register a business in Uganda while it takes four to five days in Rwanda (Doing Business, 2018).

Uganda’s uncondusive business environment affects all firms, including foreign-owned, and probably explains the low attractiveness of Uganda compared to Rwanda or Kenya. What are the main investment climate-related factors? Both Rwanda and Kenya fare well in the Doing Business (2018), but what precise characteristics of Uganda’s uncondusive business environment explain its weak foreign investment record outside extractive industries? Besides facilitating investment the Global Competitiveness Report (WEF, 2018) hints at two factors: institutions and product market. Indeed, Uganda differs considerably from

Rwanda and Kenya along these two indicators. For *institutions*, Uganda ranks 104th while Kenya and Rwanda rank 64th and 29th respectively; for the indicator *product market*, Uganda ranks 118th while Kenya and Rwanda rank 79th and 65th respectively. Zooming into these two dimensions, Uganda's low score is a result of high incidence of corruption, weak protection of intellectual property rights⁷ (institutions), distortive effects of taxes and subsidies on competition⁸, the presence of dominant actors that prevent firms from entering the market, and high import tariffs (*product market*).

Box 6: RWANDA'S SUCCESS IN ATTRACTING FDI

Rwanda is a very small economy compared to Uganda in terms of GDP and inhabitants. They share one key common factor: they are both landlocked. The report *Manufacturing FDI in Sub-Saharan Africa: Trends, Determinants, and Impact* (Chen et al., 2015) reviews the case of Rwanda to better understand the determinants that have led to large FDI inflows.

Similar to Uganda, Rwanda is a member of the World Trade Organization (WTO) and of several sub-regional economic associations (EAC, COMESA, but also the Economic Community of the Great Lakes) which eases access to the larger regional market. In addition, like Uganda, Rwanda has access to the European Union (EU) through the Everything But Arms Initiative, and to the U.S. through the AGOA. The country also has several bilateral treaties with countries such as China, Malaysia, and South Africa.

The government has invested considerably in trade openness. Rwanda's Doing Business ranking in trading across border leaped from 169th in 2010 to 31th in 2014. Through an ambitious Trade Logistics and Distribution Services Strategy, Rwanda has made consistent progress in reducing heavy logistics and transport costs and facilitating exports.

The overall investment climate has been improved. The Government of Rwanda (GoR) has made attracting investment a key policy priority and established the Rwanda Development Board in 2009 as a "one-stop shop" supporting private sector development through investment and export promotion. It takes only six hours to register a new business, even for foreign investors. The country has also fought corruption. Various government agencies delegated their authority to the Rwanda Development Board as part of the one-stop shop initiative. The Board now provides a full range of investment-related facilitation services, including business plan evaluation. This includes "aftercare" services support for investment projects, such as securing required approvals and certificates, and obtaining building, construction, and work permits.

⁷ A couple of measures have been taken on intellectual property rights as a new legislation has been issued in 2017 aims to reinforce intellectual property rights and to enforce related laws. While this is not the first step that the country has officially taken towards limiting counterfeit and piracy, so far these laws have not been enforced.

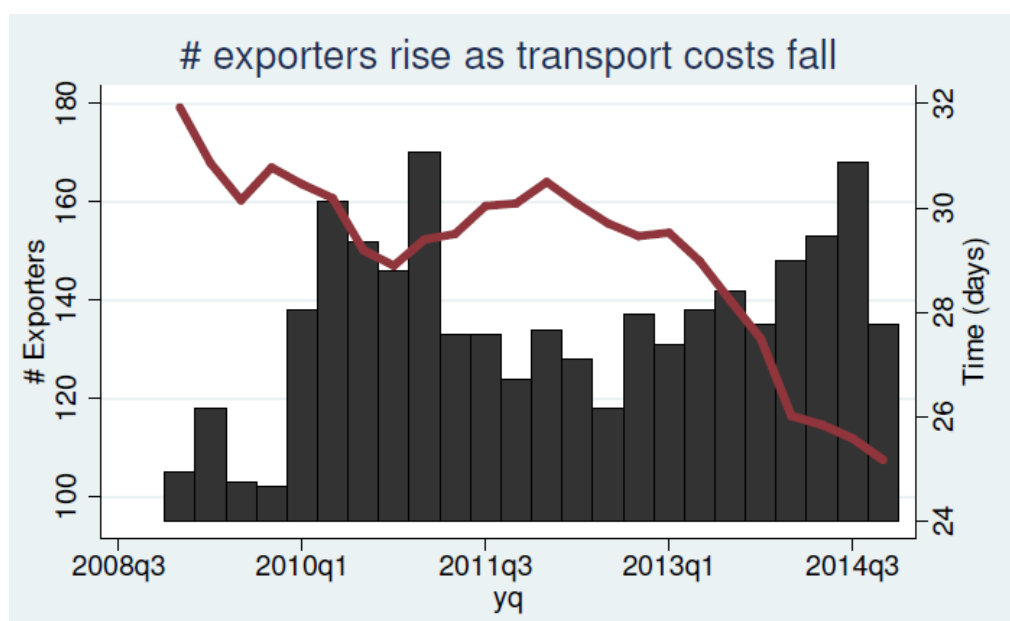
⁸ More details can be found in the report WB (2018b). In particular, the report highlights important distortions in the economy: "the practice of VAT zero-rating non-export items has created challenges for revenue administration and collection, with some taxpayers classifying standard-rated items to evade tax obligations." The report also states that "among EAC countries, Kenya applies zero-rates to only two items apart from exported goods, these being natural water and the transfer of business (as going concern). Rwanda is even more restrictive, applying zero rates only to exports and to donor funded projects."

4.3. What is preventing firms from exporting?

Cross country analysis indicates that a large portion of exporters are usually foreign-owned and large: attracting FDI also support exports. As shown above, the GoU has emphasized the importance of exports and reflected it in trade agreements, fiscal incentives, and exemptions. This has diversified exports⁹ but not enough to supplant agricultural commodities. The Government has not been promoting large foreign investors directly, while most of them could be exporters. Evidence from a dataset of pooled exporters worldwide (including Uganda) indicate that large exporters rarely emerge from the bottom half of the firm-size distribution: they were already large five years ago or are new. They also are primarily foreign owned (Freund and Pierola, 2016). The appeal of supporting FDI is strong and will translate into more exporting firms and diversification.

High trade costs hinder exporters and GoU should continue its efforts. Many studies show the negative correlation between trade costs and exports. Similar results apply to Uganda (Figure 25). Since 2009, the GoU has been committed to reducing trade costs through various measures and actions: one-stop border posts, decrease in police check points, and improved road surfaces, among them. As a result, the cost to export goods from Uganda through the northern corridor to the port of Mombasa in Kenya halved between 2009 and 2014. This increased export volumes, number of exporters, and the number of exported products (Spray, 2017). But more efforts are needed. Indeed, when looking at the Logistics Performance Index (LPI), Uganda fares poorly compared to Kenya and Uganda (Table 4). More effort is needed to enhance infrastructure, logistics, tracking and tracing, and in ensuring timeliness of shipments.

FIGURE 25: NUMBER OF EXPORTERS AND TIME TO EXPORT ON THE NORTHERN CORRIDOR



Source: Spray (2017)

⁹ Export diversification database done by the IMF and DFID: <https://www.imf.org/external/np/res/dfidimf/diversification.htm>

TABLE 4: LOGISTICS PERFORMANCE

	Overall Ipi rank	Customs	Infra	Int. shipments	Logistics quality and competence	Tracking and tracing	Timeliness
RWANDA	57	64	65	29	60	86	61
KENYA	68	67	79	99	64	56	79
UGANDA	102	76	124	78	99	123	110

Source: WB (2018) Logistics Performance Index

While top exporters are mostly foreign-owned, small and medium firms still have a role to play in the export sector if they can grow. Indeed, as shown above, small and medium firms can contribute more to forming backward and forward linkages (Spray, 2017). Moreover, theoretically, under perfect market conditions, low productivity firms will be pushed out of the market and resources will be reallocated to the surviving and most productive firms. As corollary, countries with fewer distortions should have more exporters and higher export market entrant survival rates because the most productive firms have the opportunity to grow, begin exporting, and expand into foreign markets.

4.4. Intensity of constraints by category of firms

Eslava and Haltiwanger (2017) provide invaluable insights on constraints firms face at different stages of development. Looking at Colombian manufacturing establishments over 30 years, they decompose production growth into fundamentals and distortions. The fundamentals are comprised of productivity growth, demand shocks, and unit prices for inputs. Distortions are any measures that makes firms depart from the predicted model (for example outputs predicted by the fundamentals). The authors show that at early stages, growth variation is mainly explained by distortions (50 percent of the variance). Turning to fundamentals, productivity growth is also an important determinant of production growth. Demand shocks increase at a later stage in terms of explaining growth variations. At year 10, demand shocks explain 20 percent of the variation, and at year 20 it reaches 40 percent. In other words, it seems that young firms will be very sensitive to distortions and need to boost productivity to survive in the market. In later stages, demand becomes an important factor to growth.

TABLE 5: SUMMARY TABLE: BINDING CONSTRAINTS BY TYPE OF FIRMS

FIRMS	WHAT THE LITERATURE SAYS	BINDING CONSTRAINTS IN UGANDA
STARTUPS (< 5 YEARS)	<ul style="list-style-type: none"> - Distortions are critical in the first years (Eslava and Haltiwanger, 2017) - Productivity is key for the survival of startups (Eslava and Haltiwanger, 2017). 	<ul style="list-style-type: none"> - Distortions: Preferential access of inputs and finance for the incumbents; tax regime gives no support to startups - Productivity: main reason cited by household enterprises is a lack of finance access; followed by a limited market access. We can extrapolate the following issues: (i) commercial banks are not lending to startups, (ii) choice of market may not be appropriate given the market and the capability of the entrepreneur, (iii) the latest technology is not available/accessible to these firms (low innovation).

YOUNG FIRMS (< 10 YEARS)	<ul style="list-style-type: none"> - They are the high-growth firms (Grover et al., 2019): young but not startups. - Distortions and productivity are still the main factors explaining output level but demand is picking up (Eslava and Haltiwanger, 2017) 	<ul style="list-style-type: none"> - Distortions: Preferential access of inputs and finance for the incumbents; no preferential access to inputs. - Productivity: the main reason cited is still (i) a limited access to market; (ii) access to finance seems to become a more stringent constraint; (iii) another important issue mentioned by firms are payments of debts.
LOCAL EXPORTERS	<ul style="list-style-type: none"> - As firms reach a certain level of productivity and a certain size, firms can export 	<ul style="list-style-type: none"> - Trade costs are high, in particular cost of importing is high (and Uganda still relies heavily on imported good for production)
FDIS	<ul style="list-style-type: none"> - The three key factors are: natural resources, access to market, and labor costs. 	<p>Uganda seems to be doing relatively well on these three factors. But: (i) access to reliable and high-quality agricultural products could be improved; and (ii) there are large opportunities for Uganda foreign investors to access the regional market as well as U.S. and Europe; however trade costs could be lowered. In addition, corruption, protection of intellectual rights and dominant positions of actors seem to be deterring investments in Uganda. It is also still cumbersome to register a business.</p>

Source: Author's compilation

5. POLICIES FOR MORE AND BETTER JOBS

The previous sections of this Note highlighted that a youthful population is entering the Ugandan labor market at a pace higher than any neighboring country. Integrating these additional young workers into the economy while the country pursues slow structural transformation is a major economic challenge.

We identified two policy axes to generate more employment:

The first policy axis is to develop an economy that nurtures its high-potential firms and attracts FDI. The Ugandan economy is peculiar in the high proportion of micro-enterprises in the share of employment. In most middle and high-income countries, large firms are the main employers. Some large firms originate from tiny firms, though transitions are rare in developing economies. Given its entrepreneurial dynamism, Uganda should concentrate efforts on a handful of potential high-growth firms. Conversely, a large proportion of large firms usually were large at start-up, and come from FDI.

The second policy axis is to diversify the Ugandan economy by attracting FDI in for exports and support local firms to upgrade products for export. The Ugandan economy is very sensitive to shocks in agriculture production as well as price shocks from international markets. To generate more resilient jobs, Uganda needs to diversify its industrial base. To do so, promoting the export sector is critical.

5.1. Policy Axis 1: Developing an economy that attracts and nurtures larger firms

Support domestic firms at every stage of life cycle growth

Offer incentives for entrepreneurs. Starting a business is a risky activity, as shown by the low startup survival rate. Some countries have provided fiscal (and non-fiscal) incentives to entrepreneurs: France and Germany offer a continuation of unemployment benefits for a certain period of time for entrepreneurs to start new businesses. In France, this resulted in a surge of new firms (over 25 percent for monthly firm creation) and more unemployed workers moving to self-employment (Hombert et al., 2014). While it is difficult to replicate this model in a developing country, the GOU implements safety net programs that could be linked to entrepreneurship. The GoU also provides scattered support to self-employment, but with little impact.

Actions could be:

- (i) **Streamline programs on self-employment and link with existing safety net programs.**
- (ii) **Provide financial support to high-potential entrepreneurs, using a robust screening process to identify them.** Monthly financial support could be conditional on monthly visits to mentors or appropriate supporting structures related to startups.

Develop technical assistance and financial support structures for firms in early stages. It is also important to build structures that are viable, fully equipped to provide services to startups, and help the government reduce identification costs for these high-growth entrepreneurs.

Actions could be:

- (i) **Provide technical assistance and funding to incubators** (see Box 7). With some public funding, as well as collection of fees from customers, incubators could provide tailored services to entrepreneurs and refer the best for further government financial support. This supposes also providing high-quality technical assistance to some current incubators experiencing severe financial difficulties: What services should the incubator provide ? What specialization if any? What prices? Should these prices be differentiated by customer segment? Government funding can remunerate incubators based on their performance;
- (ii) **Support research centers to foster innovation.** Support entrepreneurs' access to these research centers.
- (iii) **Centralize information on a web platform.** This includes financial and non-financial support to startups, promising markets, and supporting structures.

Box 7: THE JOBS FUND IN SOUTH AFRICA – STRENGTHENING THE ENTREPRENEURIAL ECOSYSTEM

Launched in 2011, the objective of the Jobs Fund is to support job creation in South Africa. One of the windows (enterprise development) fosters job creation in small businesses while building a sustainable ecosystem to support firms. The Fund does not allocate grants to small businesses directly but rather to existing structures (incubators, NGOs, other private companies) to leverage their capacity and scale-up their services to small businesses.

For instance, the Jobs Fund funded an Incubator project called Awethu Project (<http://www.awethuproject.co.za/>), which supported 500 entrepreneurs and created an additional 1,000 jobs. The target group of this incubator is high-potential entrepreneurs from vulnerable groups. This incubator provides a face-to-face training program for six months after screening business ideas. It also developed a mobile application for virtual incubation which provides training in basic business concepts, business tools, and networking.

Other examples include:

Cape Craft Design Institute that supports 24 growth-orientated companies in craft businesses to improve production processes, certification and quality assurance, and materials research and development, among other things.).

Hot Dog Café supports young, unemployed black South Africans in starting a Hot Dog Café franchise.

Shanduka Black Umbrellas is incubator for businesses with the potential to grow and generate at least four jobs per company.

Project selection is based on the number of potential jobs being created. Grants are conditional upon jobs being created. So far, the Fund has supported about 71 projects under this window with an average grant per project of about USD 2 million. An independent evaluation found that this window created 84 percent of the total jobs created by the Fund.

Provide financial support to young firms to grow. In the short term, and in the absence of financial sector reform, business plan competitions could support high-growth, financially constrained firms (see Box 8). This business plan competition could be open businesses existing for at least three years in sectors with potential to generate more jobs. After an intensive screening of a detailed and thorough business plans, winners would receive a grant in two to three tranches.

Box 8: YOUWIN! IN NIGERIA: A BUSINESS PLAN COMPETITION TO IDENTIFY A POOL OF HIGH-GROWTH FIRMS THAT CAN GENERATE JOBS

The Youth Enterprise with Innovation in Nigeria (YouWin!) program is a business plan competition for young entrepreneurs launched in 2011 by the Nigerian Ministry of Finance (MoF). To be eligible for the program, applicants had to be Nigerian citizens aged 40 or younger, proposing creation of a new or expansion of an existing business venture within Nigeria through a concept note. In 2012, the top 6,000 out of 23,888 applications were selected for a four-day business plan training course; 4,510 business plan applications were received and scored, and 1,200 most innovative winners were selected to receive prizes averaging US\$50,000 each. The grant was given in four tranches conditional upon close monitoring.

McKenzie (2017) indicates that the program was able to identify high-growth firms, address their finance constraints through a grant, and as a result, accelerate the growth of winners. The author found for semi-finalists in the business plan competition, there was no good predictor for which would become high-growth firms. The total business plan score did not predict new and existing business success. The selection process was more important than the business plan itself. Indeed, the selection process was quite intense: candidates were asked to fill out a concept note on Excel, register online, complete an in-class training program, and submit a detailed business plan online. As a result, applicants were older and more educated on average than most young Nigerians.

Three follow-up surveys were done in 2012, 2013, and 2014 to track results over time. Three years after applying, new firm applicant winners were 37 percentage points more likely than the control group to be operating a business, and 23 percentage points more likely to have a firm with 10 or more workers (relative to a control mean of 11 percent). Existing firm winners were 20 percentage points more likely to have survived, and 21 percentage points more likely to have a firm with 10 or more workers (relative to a control mean of 17 percent). The winners are also innovating more and are earning higher sales and profits.

The latest follow-up 2016 survey found that the program continues to have significant impacts three years after the last tranche was received, despite the economic crisis in Nigeria¹⁰. Based on a rigorous impact evaluation, the program generated 2,500 jobs in 2012, 6,800 in 2013, 7,000 in 2014, and 4,200 in 2016. Given the program budget, the cost per job created was about 2,300 dollars over five years.

Enhance market access for SMEs. For young firms to grow, evidence suggests that the demand side is critical. How to increase market access for SMEs?

Actions could include:

- (i) **Facilitate access to public procurement.** This policy has been used in a couple of countries to boost market access for SMEs. Governments set a target for SME participation in public procurement, and address market failures that prevent SMEs from winning bids. This includes separating procurement packages into smaller procurement packages; providing free training to SMEs on how to bid for projects; and putting notices, tenders, and other things online to make them more accessible.
- (ii) **Develop a supplier database.** This has been tried in many countries with mixed evidence. This database should be properly designed to offer benefits to SMEs (access to clients but also preferential access to finance with partnering banks, information about the reliability of the client in terms of payments) and to offer benefits to potential clients (information about the quality of the products as well as the reliability of the SME).

Attract more FDI to Uganda. Foreign investors bring massive investments in the country, and they can also play an important role in technology “leap-frogging” as well as skill enhancement (WB, 2018c). Foreign investors can be large contributors to employment provided that they establish their operations in labor-intensive sectors. Mining has been the main source of FDI but with very little effect on increasing employment. How can Uganda spur foreign investment in sectors that can generate jobs?

FDIs are discouraged by several factors, like cumbersome processes to register a business, limited access to market when incumbents have strong positions, and high level of corruption.

Actions to facilitate FDI include:

- (i) **Increase efforts to streamline procedures overall, but with specific focus on FDI.** The Uganda Investment Authority (UIA) could play a stronger role in investment promotion, including development of a one-stop shop for FDI, assist in establishment of operations (tax-related services and exemptions, accessing utilities, obtaining visas and work permits) and provide after-care services. UIA engagement needs to be more focused. Currently, the UIA activities are spread too wide to include things such as industrial park management and SME development.
- (ii) **Intensify high-profile anti-corruption efforts.**

Align fiscal incentives with policy objectives. The tax code in Uganda is comprised of many, not always necessary, exemptions. For manufacturing or services, Uganda has some comparative advantages compared to most countries (natural resources, low labor costs, and commercial treaties), but so do other countries in the region. With high competition for FDI, incentives are commonly offered to attract

¹⁰ In 2016, Nigeria suffered its worst economic performance in thirty years, driven by a contraction in the oil sector, which is the main export and accounts for 70 percent of government revenues.

these investors. A corollary conclusion is that FDI in natural resource-seeking sectors flow into resource-rich countries regardless of the business environment; hence, incentives for these sectors are not necessary. Uganda provides many tax rebates or exemptions, mostly to exporters (tax holidays for 10 years, zero-rate VAT for exports, and inputs to exported products) and farming or agro-processing activities (exemption on income tax for agro-processors, zero-rate VAT for fertilizers, pesticides, etc). While Uganda has diversified its industrial base, the impacts have not met the costs of these fiscal exemptions and rebates. Rwanda has a clearer policy on tax incentives with less exemptions and more focus on key sectors and industrial zones. The Government of Uganda (GoU) should:

- (i) **Conduct a cost-benefit analysis of current exemptions to understand impacts on different types of firms.** This cost-benefit analysis could support expansion of the Government tax base and fiscal revenues as the current fiscal regime generates many distortions, resulting in very low fiscal revenues compared to other countries¹¹ (WB, 2018b). As a result, large farmers are also excluded and in terms of absolute value, the level of support provided to large farmers significantly exceeds that provided to small farmers (WB, 2018b). Exemptions should be kept at the bare minimum while the government can out more efforts in providing non-fiscal incentives.
- (ii) **Re-orient incentives towards investments expected to bring jobs.** For instance, GoU could offer investment tax credits for firms, for instance, that can generate more than 500 jobs in the coming three years to foster private investment in job-rich economic sectors.
- (iii) **Eliminate discretionary tax exemptions from any authority, in whatever form.** It should be noted that unprocessed agricultural products and livestock are exempted from any VAT.

5.2. Policy Axis 2: Diversification: a driving force for more exports and more integration

Improve logistics and trade facilitation. Modernizing to improve supply chain lead times and trade logistics reliability and infrastructures is important for attracting investment, and jobs, in global value chains. Countries that facilitate movement of imports and exports are more likely to attract investment and help their private sector participate and compete in the international trading system.

To improve logistics, GoU should:

- (i) **Build capacity of institutions charged with inspection and sanitary standards and international quality certification.** Access to the regional market (compliance with EAC rules, for instance), as well as to US and European markets, depends on firms being able to meet destination market requirements. The capacity of existing institutions is limited.

¹¹ World Bank. (2018)b. Uganda Economic Update 11th edition. Financing Growth and Development: Options for raising more domestic revenues.

- (ii) **Continue efforts to reduce trade costs.** Efforts include enhancing the quality of infrastructure, improving logistics quality and competence, including tracking, tracing, and ensuring timeliness of shipments.

Support SMEs transition to exporting. SMEs typically lack knowledge about, (i) regional and international markets, (ii) potential market requirements, and (iii) relationships abroad to find customers. Access to exports boost demand for SME products and allow SMEs to grow.

Potential actions include:

- (i) **Establish a specialized agency to support SMEs to export.** The Uganda Export Promotion Board could also be strengthened rather than create of a new agency. This agency would support only domestic micro, small, and medium enterprises. This agency would facilitate SME operations; among its services, the agency could assist with tax-related services and exemptions, access to certifications, financial support to attend trade fairs and international events, and training to bid for contracts.
- (ii) **Provide specialized consulting services to SMEs willing to export.** This technical assistance could be provided by local consultants as well as international advisers for a specific need requiring highly specialized competency; for instance, developing a website, developing a quality management system, prospecting for clients, and developing a marketing strategy. The example of the European Bank for Reconstruction and Development (EBRD) in Tunisia demonstrates the opportunities for SMEs (see Box 7).

Box 9: SUBSIDIZED TECHNICAL ASSISTANCE FOR SPECIALIZED CONSULTING TO SMEs

The European Bank for Reconstruction and Development (EBRD) has provided business advice to SMEs in more than 30 countries. Since 2013, EBRD has helped more than 1,000 SMEs in Tunisia. They have established a database of local and international experts in various areas including strategy, marketing, organization, operations, technology, engineering solutions, quality management, financial management, and energy efficiency and environment.

Supporting an SME usually starts with a one-to-one consultation with an expert from the local office. The expert then connects the SME with the right consultant, either local or international depending on the SME's need.

According to the EBRD, in the first year in Tunisia 75 percent of SMEs helped increased their turnover, and 55 percent improved their productivity; 62 percent experienced significant job creation, and 27 percent secured external funding to finance their growth.

Sotupa—a manufacturer of health and beauty products in Monastir, Tunisia—received support from an international advisor. The company developed a three-year operational plan and started exporting to Libya. The manufacturer also received support to improve its internal organizational scheme as well as to upgrade packaging for its cotton products. For more details: <https://www.ebrd.com/work-with-us/advice-for-small-businesses/tunisia.html>

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ANNEX

TABLE 6: PROBABILITY OF BEING A WAGE WORKER (PROBIT) – MARGINAL EFFECTS AND COEFFICIENTS (TO BE REDONE)

	MAR	COE
	All-Sample	
Individual age	0.000 (0.00)	0.000 (0.01)
Age Squared	-0.000 (0.00)	-0.000 (0.00)
Male	0.000 (.)	0.000 (.)
Female	-0.125*** (0.01)	-0.536*** (0.03)
Single	0.000 (.)	0.000 (.)
Ever Married	-0.073*** (0.01)	-0.306*** (0.05)
Urban	0.000 (.)	0.000 (.)
Rural	-0.039*** (0.01)	-0.165*** (0.03)
No education	0.000 (.)	0.000 (.)
Primary incomplete	-0.063*** (0.01)	-0.261*** (0.05)
Primary complete but secondary incomplete	-0.067*** (0.01)	-0.281*** (0.05)
Secondary complete	-0.020 (0.02)	-0.079 (0.09)
Some tertiary/post-secondary	0.137*** (0.02)	0.485*** (0.07)
agriculture	0.000	0.000

	(.)	(.)
industry	0.353*** (0.02)	1.238*** (0.05)
services	0.251*** (0.01)	0.950*** (0.03)
Size of Household	-0.012*** (0.00)	-0.054*** (0.02)
Number of children	-0.002 (0.00)	-0.007 (0.02)
Number of youth	0.006 (0.00)	0.025 (0.02)
Number of elderly	-0.005 (0.01)	-0.020 (0.05)
Central	0.000 (.)	0.000 (.)
Eastern	-0.028*** (0.01)	-0.122*** (0.04)
Northern	0.017* (0.01)	0.069* (0.04)
Western	-0.060*** (0.01)	-0.275*** (0.04)
Constant		-0.025
Observations	24377	

TABLE 7: PERFORMANCE OF NON-FARM ENTERPRISES – USING DATA FROM THE HOUSEHOLD SURVEY

VARIABLES	(1) Employment	(2) Employment	(3) Employment	(4) Employment	(5) Value added	(6) Value added	(7) Sales	(8) Sales
Age (omitted: Start-up (0-5))								
Young (6-10)	0.305** (0.130)	-0.306* (0.174)	0.146 (0.135)	0.157 (0.136)	0.344*** (0.0950)	0.208** (0.0924)	0.483*** (0.0745)	0.324*** (0.0677)
Mature (>10)	0.171	-0.390**	0.0285	0.0335	0.328***	0.228***	0.419***	0.327***

	(0.133)	(0.198)	(0.155)	(0.155)	(0.0841)	(0.0863)	(0.0812)	(0.0786)
Region (omitted: Central)								
Eastern	-1.101*** (0.147)	-0.881*** (0.202)	-1.150*** (0.155)	-1.137*** (0.154)	-0.407*** (0.0938)	-0.362*** (0.0866)	-0.281*** (0.0874)	-0.232*** (0.0846)
Northern	-1.306*** (0.158)	-0.669*** (0.212)	-1.043*** (0.160)	-1.040*** (0.159)	-0.804*** (0.0866)	-0.573*** (0.0791)	-0.848*** (0.0940)	-0.607*** (0.0945)
Western	-0.460*** (0.133)	-0.398** (0.171)	-0.525*** (0.142)	-0.527*** (0.142)	-0.271*** (0.0862)	-0.285*** (0.0794)	-0.196** (0.0904)	-0.185** (0.0863)
Industry (omitted: Agriculture)								
Mining	1.014** (0.417)	1.693** (0.667)	1.009*** (0.387)	0.979** (0.389)	0.884*** (0.284)	0.512* (0.271)	0.662 (0.564)	0.644 (0.521)
Manufacturing	-0.0417 (0.193)	-0.253 (0.321)	0.0322 (0.207)	0.0183 (0.206)	-0.708*** (0.209)	-0.453** (0.214)	0.445*** (0.146)	0.478*** (0.147)
Public utilities	-1.111 (0.758)	-1.248 (0.940)	-2.245** (1.099)	-2.264** (1.118)	-0.309 (0.418)	0.126 (0.366)	0.442 (0.338)	0.0456 (0.291)
Construction	0.908** (0.462)	-1.328* (0.726)	0.296 (0.455)	0.278 (0.459)	0.758 (0.547)	0.472 (0.463)	1.405*** (0.519)	1.045** (0.499)
Commerce	-0.607*** (0.199)	-1.370*** (0.302)	-0.567*** (0.206)	-0.573*** (0.206)	-0.275 (0.203)	-0.0483 (0.211)	1.394*** (0.141)	1.394*** (0.144)
Transport and Com	-0.823*** (0.297)	-2.229*** (0.501)	-1.284*** (0.315)	-1.286*** (0.315)	0.328 (0.239)	0.00436 (0.255)	1.307*** (0.157)	0.957*** (0.162)
Financial and Business serv	-0.0425 (0.324)	-1.467** (0.635)	-0.358 (0.347)	-0.377 (0.348)	0.252 (0.286)	0.146 (0.291)	1.307*** (0.200)	0.946*** (0.201)
Other services	0.267 (0.236)	-0.383 (0.346)	0.117 (0.247)	0.108 (0.247)	-0.225 (0.222)	-0.248 (0.232)	0.691*** (0.167)	0.476*** (0.167)
Other HE characteristics								
Rural	-0.411*** (0.111)	0.154 (0.145)	-0.304** (0.120)	-0.305** (0.119)	-0.505*** (0.0690)	-0.422*** (0.0658)	-0.581*** (0.0729)	-0.475*** (0.0724)
Months in operation (log)		-0.0756 (0.190)	0.276** (0.127)	0.276** (0.127)		0.372*** (0.0756)		0.644*** (0.115)
Value added (log)		1.043*** (0.0811)						
Business owner characteristics								
Female		-0.437* (0.229)	-0.831*** (0.183)	-1.082*** (0.118)		-0.740*** (0.108)		-0.424*** (0.103)
Age (log)		0.409 (0.254)	0.230 (0.189)	0.269 (0.186)		-0.0149 (0.106)		-0.101 (0.0970)
No of kids below 6 yrs (log)		0.0416 (0.169)	0.133 (0.129)			0.0206 (0.0701)		0.148 (0.0908)

Female x No kids <6		-0.189 (0.277)	-0.409* (0.230)			-0.000944 (0.108)		-0.191* (0.114)
Education (omitted: no education)								
Primary incomplete		0.0822 (0.306)	0.559** (0.253)	0.563** (0.254)		0.0672 (0.102)		0.188** (0.0874)
Primate complete but secondary not complete		0.386 (0.300)	1.030*** (0.254)	1.037*** (0.254)		0.385*** (0.105)		0.467*** (0.0953)
Secondary complete		-0.166 (0.469)	1.022*** (0.368)	1.016*** (0.370)		0.421** (0.204)		0.622*** (0.209)
Some tertiary/post-secondary		0.828** (0.360)	1.927*** (0.306)	1.931*** (0.308)		1.003*** (0.147)		1.108*** (0.138)
Constant	-0.659*** (0.217)	-14.56*** (1.469)	-2.714*** (0.827)	-2.769*** (0.811)	12.60*** (0.211)	11.66*** (0.465)	11.98*** (0.174)	10.60*** (0.480)
Observations	6,498	4,416	6,388	6,388	4,481	4,419	6,504	6,394
R-squared					0.105	0.187	0.151	0.207
Age categories	YES	YES	YES	YES	YES	YES	YES	YES
Region dummies	YES	YES	YES	YES	YES	YES	YES	YES
Industries Dummies	YES	YES	YES	YES	YES	YES	YES	YES

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

TABLE 8: PERFORMANCE OF NON-FARM ENTERPRISES – USING DATA FROM THE HOUSEHOLD SURVEY

VARIABLES	(1) Sales per worker - basic	(2) Sales per worker - all	(3) Sales per working hours	(4) Sales per working hours
Age (omitted: Start-up (0-5))				
Young (6-10)	0.232*** (0.0554)	0.159*** (0.0555)	0.254*** (0.0566)	0.149*** (0.0533)
Mature (>10)	0.185*** (0.0613)	0.178*** (0.0637)	0.249*** (0.0602)	0.160*** (0.0618)
Region (omitted: Central)				
Eastern	-0.174*** (0.0654)	-0.123* (0.0635)	-0.0118 (0.0647)	0.00956 (0.0616)
Northern	-0.686*** (0.0610)	-0.497*** (0.0609)	-0.466*** (0.0612)	-0.284*** (0.0605)

Western	-0.169*** (0.0642)	-0.152** (0.0621)	-0.166** (0.0667)	-0.168*** (0.0639)
Industry (omitted: Agriculture)				
Mining	0.498*** (0.185)	0.443** (0.218)	0.760*** (0.185)	0.692*** (0.182)
Manufacturing	0.167* (0.0869)	0.197** (0.0854)	0.252*** (0.0873)	0.289*** (0.0858)
Public utilities	0.219 (0.298)	0.0559 (0.238)	-0.0659 (0.297)	-0.395 (0.245)
Construction	0.815*** (0.264)	0.488* (0.260)	1.211*** (0.402)	0.849** (0.380)
Commerce	1.099*** (0.0845)	1.104*** (0.0855)	0.855*** (0.0845)	0.881*** (0.0847)
Transport and Com	0.966*** (0.123)	0.676*** (0.126)	0.519*** (0.119)	0.272** (0.124)
Financial and Business serv	0.900*** (0.141)	0.649*** (0.141)	0.790*** (0.150)	0.535*** (0.157)
Other services	1.501*** (0.106)	1.868*** (0.126)	1.548*** (0.106)	1.853*** (0.124)
Other HE characteristics				
Rural	-0.569*** (0.0484)	-0.499*** (0.0476)	-0.470*** (0.0489)	-0.413*** (0.0484)
Months in operation (log)		0.286*** (0.0546)		0.154** (0.0649)
Business owner characteristics				
Female		-0.295*** (0.0760)		-0.409*** (0.0750)
Age (log)		-0.196** (0.0794)		0.148* (0.0808)
No of kids below 6 yrs (log)		0.150** (0.0623)		0.133** (0.0583)
Female x No kids <6		-0.235*** (0.0825)		-0.133 (0.0829)
Education (omitted: no education)				
Primary incomplete		0.176*** (0.0652)		0.229*** (0.0661)
Primate complete but secondary not complete		0.433*** (0.0698)		0.460*** (0.0714)
Secondary complete		0.584***		0.620***

		(0.137)		(0.154)
Some tertiary/post-secondary		0.856***		0.999***
		(0.112)		(0.119)
Constant	12.13***	11.91***	8.704***	7.554***
	(0.0986)	(0.337)	(0.0977)	(0.332)
Observations	6,417	6,308	6,236	6,140
R-squared	0.218	0.273	0.139	0.205
Age categories	YES	YES	YES	YES
Region dummies	YES	YES	YES	YES
Industries Dummies	YES	YES	YES	YES

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

TABLE 9: DETERMINANTS OF WAGES

VARIABLES	(1)	(2)	(3)	(4)
Average price for education	2.477** (1.014)	2.397** (1.011)	2.026** (1.002)	2.792*** (1.001)
Industry (omitted variable: agriculture)				
mining	4.288*** (0.532)	2.204*** (0.582)	2.244*** (0.578)	3.966*** (0.549)
manufacturing	4.421*** (0.178)	2.086*** (0.345)	2.265*** (0.345)	4.221*** (0.179)
utilities	3.822*** (0.963)	1.711* (0.992)	1.793* (0.984)	2.905*** (1.029)
construction	4.756*** (0.440)	2.594*** (0.520)	2.067*** (0.517)	3.897*** (0.438)
commerce	5.237*** (0.106)	2.807*** (0.323)	3.048*** (0.322)	5.199*** (0.111)
transport and com	5.695*** (0.201)	3.073*** (0.395)	2.973*** (0.391)	4.893*** (0.206)
financial services	5.216*** (0.345)	2.923*** (0.463)	3.063*** (0.459)	4.698*** (0.350)
public	4.914 (6.987)	2.349 (6.975)	2.641 (6.913)	5.204 (6.900)
others	4.791*** (0.221)	2.519*** (0.357)	2.502*** (0.354)	4.615*** (0.227)
Occupation (omitted variable: Senior official)				
professionals		-1.368* (0.790)	-1.184 (0.784)	
technicians		-1.707** (0.733)	-1.213* (0.727)	
clerks		-1.012 (1.307)	-0.497 (1.297)	
service workers		-1.091* (0.609)	-0.0928 (0.608)	
skilled ag workers		-3.678*** (0.669)	-2.424*** (0.668)	
craft workers		-1.176* (0.638)	-0.348 (0.636)	

machine operator	-0.711		0.303	
	(0.686)		(0.684)	
elementary occupation	-1.836***		-1.130*	
	(0.639)		(0.638)	
Type of employment (omitted variable: paid employee)				
Employer			0.724***	
			(0.240)	
Self-employed			-1.601***	
			(0.190)	
Individual characteristics				
Log (years of education)			0.0336***	
			(0.0113)	
Women			-1.419***	
			(0.0839)	
Urban			0.475***	
			(0.115)	
Constant	-21.55*	-17.06	-12.98	-24.62**
	(11.17)	(11.16)	(11.07)	(11.04)
Observations	13,204	13,204	13,204	13,029
R-squared	0.355	0.360	0.371	0.372
Industry dummies	YES	YES	YES	YES
District dummies	YES	YES	YES	YES

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Annex 2: UBOS Business Data

The Uganda Analysis is based on business census data and business survey data from the years 2001/02 and 2010/11 collected by the Ugandan Bureau of Statistics (UBOS). In 2001/02 the census is called the Uganda Business Register (UBR) and in 2010/11 it is called the Census of Business Establishments (COBE). In both years the survey is called the Uganda Business Inquiry (UBI).

UBR 2001/02

Notes

- All establishments operating in fixed locations, regardless of number of employees were covered in the following districts: Jinja, Kampala, Kayunga, Luwero, Masaka, Mbale, Mbarara, Mpigi, Mubende, Mukono, Rakai, Sembabule, and Wakiso. Including those in markets and kiosks.
- Outside of these districts the registration of businesses was limited to all businesses in urban centers and only those establishments with at least 5 employees outside of urban centers.
- The districts Kitgum and Pader were not covered because of security issues
- The data covers 164,214 firms and is made up of 491,007 employees.
- Fieldwork began in Kampala in February 2001 and was completed in Kotido in October 2002
 - Because of the long extent of the field work and the particularity that if 2002 is used at the reference year the result is no entrant firms in Kampala
 - Therefore 2001 is used at the reference year and all firms listing their establishment year as 2002 were converted to 2001
- Data collected includes:
 - Activity (ISIC revision 3)
 - Age
 - Size & gender of employment
 - Location
 - Ownership
- Full report from UBOS: <http://www.ubos.org/onlinefiles/uploads/ubos/pdf%20documents/UBR%20report.pdf>
- Age is missing for 44,547 firms (27%) in the census
- There is no data on output or value added
- There is no data on ownership nor legal status nor wages nor export nor import

COBE 2010/11

- All establishments operating in a fixed location, regardless of location and number of employees, were covered
- The data covers 362,533 firms and is made up of 885,722 employees.
- Fieldwork began in March 2010 and was completed in June 2011
 - In Kampala enumeration was undertaken entirely between October 2010 to January 2011 resulting in nearly 0 entrant firms in the capital,
 - Thus 2010 was used at the reference year and all firms listing their establishment year as 2011 were converted to 2010
- Data collected includes:
 - Activity (ISIC revision 4)

- Age
- Size & gender of employment
- Location
- Ownership
- Full report from UBOS: <http://www.ubos.org/onlinefiles/uploads/ubos/pdf%20documents/2010%20COBE%20Report.pdf>
- Age is missing for 9,410 firms (2%) in the census
- Sector is missing for 52,419 firms (11%) in the census
- There is no data on output or value added
- There is no data on legal status nor wages nor export nor import

UBI 2000/01

- The UBR (Uganda Business Register) was used as the sample frame – stratified by industry sector (not clear whether it is a one or 2-digit level), employment size (1-4, 5-9, 10-19, 20-49, 50-99, >100). All firms with 20 or more employees were surveyed and firms with less than 20 employees were subjected to probabilistic sampling.
- Data collection began in June 2002 and ended in October 2003
- Data collection was carried out by post – firms were given questionnaires to complete and send back – and face-to-face interviews – used for small firms that did not keep records
- Data utilizes ISIC revision 3
- The data covers 4,720 firms and is made up of 135,691 employees.
- Full report from UBOS: <http://www.ubos.org/onlinefiles/uploads/ubos/pdf%20documents/UBI%20report.pdf>
- Age is missing for 1,403 firms (29.72%) in the survey
- Sector is missing for 52,419 firms (25%) in the census
- There is no data on legal status nor export nor import

UBI 2010/11

- The COBE 2010/11 was used as the sample frame – stratified by industry sector (84 sectors), employment size (1, 2-4, 10-19, 20-49, 50-99, 100-499, >500), and turnover (< 5 million shillings, 5-10 million shillings, 5 million shillings). All firms with 50 or more employees were surveyed and firms with less than 50 employees were subjected to probabilistic sampling.
- Covered all economic sectors, excluding public administration, and covered all 112 districts in the country as of October 2010
- The data covers 4,706 firms and is made up of 191,743 employees.
- Full report from UBOS: http://www.ubos.org/onlinefiles/uploads/ubos/pdf%20documents/UBI%202009_10%20Report%20final_.pdf
- Sector is missing for 1,021 firms (21%) in the census
- There is no data on export nor import

Ugandan Entrepreneurship Ecosystem

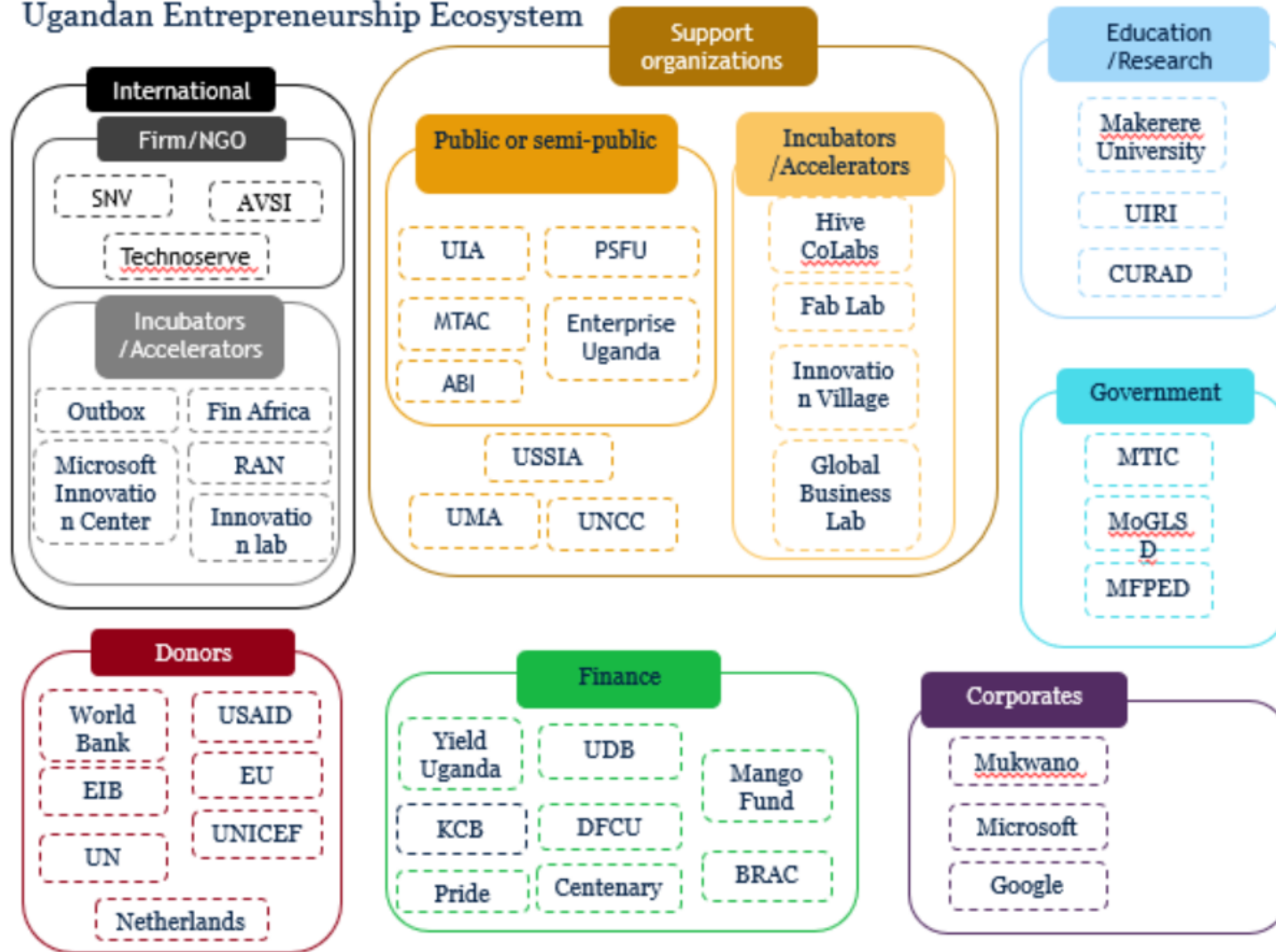


TABLE 10: INTENSITY OF CONSTRAINTS (0: NO OBSTACLE; 4: VERY SEVERE OBSTACLE) FOR SMALL AND LARGE FIRMS

CONSTRAINTS	SMALL	LARGE	DIFFERENCE
ELECTRICITY	1.9	2.1	-0.25*
TELECOMMUNICATION	1.5	1.1	0.4**
TRANSPORT	1.6	1.8	-0.25*
CUSTOMS AND TRADE REGULATION	1.5	1.95	-0.4***
COMPETITION IN THE INFORMAL SECTOR	2.0	2.25	-0.27**
ACCESS TO LAND	1.8	1.8	0.04
ACCESS TO FINANCE	1.8	1.7	0.1
TAX RATES	1.9	2.2	-0.3**
TAX ADMINISTRATION	1.5	1.9	-0.4**
LICENSING AND PERMITS	1.5	1.9	-0.4***
POLITICAL INSTABILITY	1.6	1.2	0.4**
CORRUPTION	1.7	1.6	0.05
LABOR LAW	1.3	1.3	0
INADEQUATELY EDUCATED WORKFORCE	1.4	1.5	-0.1

*** p<0.01, ** p<0.05, * p<0.1

TABLE 11: INTENSITY OF CONSTRAINTS (0: NO OBSTACLE; 4: VERY SEVERE OBSTACLE)

CONSTRAINTS	DOMESTIC	FOREIGN	DIFFERENCE
ELECTRICITY	1.6	1.6	0
TELECOMMUNICATION	1.4	1.3	0.1
TRANSPORT	1.6	1.6	0
CUSTOMS AND TRADE REGULATION	1.5	1.6	0
COMPETITION IN THE INFORMAL SECTOR	2.0	1.9	0.1
ACCESS TO LAND	1.8	1.6	0.2**
ACCESS TO FINANCE	1.9	1.4	0.5***
TAX RATES	1.9	2.0	-0.2*
TAX ADMINISTRATION	1.5	1.6	-0.1
LICENSING AND PERMITS	1.5	1.5	0
POLITICAL INSTABILITY	1.6	1.3	0.3**

CORRUPTION	1.7	1.6	0.1
LABOR LAW	1.3	1.3	0
INADEQUATELY EDUCATED WORKFORCE	1.5	1.2	0.3**

*** p<0.01, ** p<0.05, * p<0.1

TABLE 12: MARKET SHARE AND CONCENTRATION OF THE TOP 4 FIRMS – IN SALES - 2010

SECTOR	PRODUCTS (SUB-SECTOR)	SHARE OF SALES OF THE SUB-SECTOR IN THE SECTOR	SHARE IN SUB-SECTOR'S SALES FOR THE TOP 4 FIRMS
AGRICULTURE	Growing of other non-perennial crops (flower)	24 %	100 %
	Seed processing for propagation	24 %	71 %
	Growing of other perennial crops (rubber trees)	15 %	100 %
	Growing of beverage crops (coffee)	13 %	100 %
INDUSTRY	Construction of buildings	37 %	0.78 %
	Manufactures of sugar	6 %	100 %
	Manufactures of malt liquors	6%	100 %
SERVICES	Building completion and finishing	4 %	100 %
	Banks, saving banks and credit unions	20 %	69 %
	Wireless telecommunications activities	13 %	96 %
	Activity auxiliary to financial service	12 %	97 %
	Wired telecommunications activities	7 %	100 %

Source: WB (2018) JD Diagnostic for Uganda

TABLE 13: TAX REGIME AND INCENTIVES IN UGANDA

TAX	RATE	EXCEPTIONS OR REBATES	RWANDA
		Tax holidays for exports for 10 years	

INCOME TAX	30 %	By size: 1.5 % of turnover for turnover between 50 – 150 m UGX annually; fixed amount for turnover between 10-50 m UGX (depends on the location)	By size: flat tax amount for micro-enterprises (< 12 million RWF) and lump sum tax at the rate of 3 percent (firms with turnover between 12 and 20 million RWF)
		Exemption for developers of operators of industrial parks	15 % for strategic sectors (energy, transport, affordable housing, ICT and financial services)
		Exemption for income of an operator in an industrial park or free zone or other business outside parks/zones whose investment capital is at least USD 15 million (FDI) or 5 million (Ugandan citizen) for 5 years	7 years corporate income tax holiday for large projects in energy, exports, tourism, health, manufacturing and ICT
			For companies planning to relocate headquarters to Rwanda
VAT	18 %	Zero rate for exports outside of Uganda Zero rate for supplies of goods and services exported from Uganda; seeds; fertilizers, pesticides; aircraft engines etc.	Zero rate for exports outside of Rwanda
		Exemptions for: unprocessed food,	Exemptions for all unprocessed

		financial services, health and life insurance, education, pesticides, etc Zero rating for businesses with less than UGX 150 million turnover.	agriculture and livestock products, ICT, water services, transport services, etc.
CUSTOM DUTIES	0 – 60 percent depending on the item (rates are provided by the East African Community Common external tariff code)	Exemptions for plant and machinery imported into Uganda	Zero rate for supplies made by donors, governments, etc Exemptions for machinery and inputs for exported products by enterprises established in free trade zones