

Business environment in Uganda – Key areas with opportunities

LSE alumna Prajakta Kharkar says Uganda must improve her business competitiveness in order to tap into the eastward-moving centre of economic gravity.

The world economy today continues to become inextricably intertwined, and will soon transform itself into a global village. Borders are melting. New centres of business activity are emerging to compete with traditional western economic capitals. Not only are economies becoming more interconnected, but also the centre of economic gravity has unhinged from the western world and is steadily moving eastwards¹. In this evolving shift, East Africa, and particularly Uganda occupies a strategic position because of a large young workforce and the push for improving competitiveness. Business competitiveness is rapidly becoming the new global currency.



Economic productivity and an environment conducive to business are pillars of business competitiveness. Undoubtedly, labour productivity and capacity of businesses in Uganda are critical for competitiveness on the global stage. A more productive labour force enables the creation of better quality goods and services in larger quantities at lower costs, as demonstrated in China. Uganda is a small, open economy. The competitiveness of Uganda's goods and services in international trade directly depends on the productivity of her labour force and that of businesses employing this labour force. For this purpose, serious investments need to be channelled towards developing the abundant and young human capital in Uganda through better healthcare and better quality education.

Simultaneously, it is crucial to develop and maintain a conducive business environment. Businesses operating on efficient business practices in an environment which encourages investment and business development are crucial engines for the economic growth of Uganda. The IMF has projected Uganda's growth rate at 5% for 2012/2013, which could be much higher for a developing country if Uganda empowers the private sector by engineering an environment where starting and doing business is easy, efficient and competitive. The World Bank produces a ranking based on the ease of doing business in various countries each year. According to the June 2012 ranking, Uganda comes 120th among the 185 countries surveyed and this is a decline from the 119th position in the previous year². This shows that there is still ample room for improvement in the business environment here.

There are three main areas where both challenges and opportunities exist – **institutional reform, innovation and expansion of regulatory reach.**

Legal institutions including the laws, the regulatory framework and the judicial system as well as legal professionals play a crucial role in creating an environment conducive to business. In Singapore, the country which has been consistently ranked first in the World Bank's ease of doing business rankings, it takes merely three working days to register a business, whereas in Uganda, it takes thirty-three³. Simplifying the legal and regulatory procedures to close the gap in such measures needs to be a priority. Legal reform is a public private partnership; both the private sector and the public sector can play important roles in this. And its returns to the economy in the medium and long term are superlative. It is important to note that legal reform reflects the evolution of underlying social and economic values in the country. Uganda has a business culture grounded in values which are uniquely African. As Uganda contemplates legal reforms and formulation of new institutions to facilitate more efficient business, we should recognise that such reforms should reflect our economic values and be relevant to the local context in Uganda rather than mimicking the practices in neighbouring countries.

Business and financial innovations hold the promise of tremendous opportunity for businesses in Uganda. However, equally significant are the risks such innovations entail. For example, cross border remittances through mobile phones can lower transaction costs both in terms of money and time. However, as soon as large business transactions occur over mobile phones, anti-money laundering frameworks need to become highly vigilant. Simplified, timely yet thoroughly enforceable regulations need to be put in place for innovative practices, products and services. There is a need for a serious push to increase access to finance, especially for financially-excluded people in remote areas and for small and medium enterprises (SMEs). Exploring innovative mechanisms such as agent banking which can enable commercial banks to expand their reach is critical. Availability of sound and affordable financial products is indispensable for maintaining the competitiveness of Uganda's businesses.

Finally, expanding the reach of Uganda's regulatory framework to include the informal sector is necessary. Only when the informal sector is put on a level playing field with the formal sector can we tap into the full potential of domestic business in Uganda and effectively mitigate any risks arising from there.

In a nutshell, Uganda must enhance its business competitiveness to make any mark economically. Creation of an environment conducive to business is vital for businesses to be able to harness these opportunities. Institutional reform, striking the right balance between innovation and stability and expanding the reach of policy to the informal sector are the key areas to focus on in order to enhance competitiveness. In doing so, the participation of civil society is indispensable.

¹ Prof. Danny Quah

² <http://www.doingbusiness.org/data/exploreeconomies/uganda/>

³ <http://www.doingbusiness.org/data/exploreeconomies/singapore/>