

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA832

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Project Name	Competitiveness and Enterprise Development Project (CEDP) (P130471)
Region	AFRICA
Country	Uganda
Sector(s)	General industry and trade sector (35%), Other industry (30%), SME Finance (15%), Other domestic and international trade (10%), Agro -industry, marketing, and trade (10%)
Theme(s)	Micro, Small and Medium Enterprise support (25%), Infrastructure services for private sector development (13%), Legal institutions for a market economy (13%), Rural markets (24%), Export development and competitiveness (25%)
Lending Instrument	Specific Investment Loan
Project ID	P130471
Borrower(s)	Government of Uganda
Implementing Agency	Ministry of Lands, Housing and Urban Development (MoLHUD), Ministry of Finance Planning and Economic Development, Private Sector Foundation of Uganda
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	11-Mar-2013
Date PID Approved/Disclosed	09-May-2013
Estimated Date of Appraisal Completion	15-Mar-2013
Estimated Date of Board Approval	09-May-2013
Decision	

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I. Project Context

Country Context

1. Uganda's longstanding prudent macroeconomic stance and consistent market oriented policy reforms have delivered strong performance in terms of economic growth and overall poverty reduction. Annual growth, which was averaging an already high 6.3 percent over the 1990s, accelerated to 7.0 percent during the 2000s, making Uganda one of the best performing economies of the past 20 years. Key drivers of growth have been private investment, particularly in construction of commercial and residential property, exports led by tourism and non-traditional exports such as fish, flowers and maize.

2. This aggregate performance, however, resulted in more modest per capita income gains due

to fast population growth, and falls short of Uganda's aspiration to catch up with the middle-income countries. It also hides an uneven distribution of welfare improvements and increasing inequalities resulting largely from uneven spatial development. Much of Uganda's structural transformation and rising productivity in market-oriented agriculture has been spatially concentrated in the South, Central, and Western regions, while the Northern region, affected by protracted conflicts for many years, has lagged behind.

3. Recent relapse in macroeconomic management requires careful action to address imbalances while limiting adverse effects on growth and development objectives. The global financial crisis cut Uganda's growth to 5.2 percent in 2009/10, two percentage points lower than the previous year. Although stability was subsequently restored, growth will remain subdued due to budget execution problems and uncertainties brought about by governance scandals .

4. Barring the near-term uncertainties, Uganda's economic outlook is positive on account of both the pro-growth reforms to enhance efficiency and generate productivity improvements and oil. The magnitude and timing of Uganda's oil production will depend on construction of production infrastructure, including refineries and possibly pipeline, but full scale export-driven production is not expected earlier than five years. With proven reserves of at least 800 million barrels and possibly up to 3.5 billion barrels, production could reach 150,000-200,000 barrels per day over a 25-year production period. Limited production of 10,000-20,000 barrels per day, primarily for domestic use, could start within two to three years, using rail and road transportation for delivery. Full-scale production (and the concomitant government revenue) could start within five to seven years, once downstream infrastructure is in place.

5. Oil presents an opportunity for Uganda to double its fiscal revenues, and if appropriately used, forge the way for the private sector to develop through growth poles, backward and forward linkages. Already stepped up investments in oil production infrastructure in Uganda will be a major driver of growth in the medium term, generating employment and other economic opportunities, as well as potential productivity spillovers. Suppliers of the oil industry in Uganda will be able to take advantage of multiple linkages that oil sector developments can offer, such as local sourcing, information exchange, joint training, joint product development, cooperation for product or quality development and improvement and actions to improve service delivery.

6. Strengthening of government regulatory and oversight systems remains vital in ensuring that maximum benefit is received by the nation from upcoming oil production. Uganda has a comprehensive institutional, legal and policy framework to improve the governance environment and address the problem of corruption. However, enforcement of anti-corruption legislation and administrative sanctioning remain a serious challenge . Poor adherence by public officials to public financial management laws and regulations is a major constraint to improving service delivery according to the Study on Non-Compliance in Public Financial Management in Uganda (2011) which also identified public financial management and procurement laws as the most violated laws at all levels in Government.

7. Beyond governance and management issues, Uganda must manage a number of challenges to realize the opportunity within oil. First, Uganda's oil resources are located in ecologically sensitive and valuable areas, as several of the exploration areas are within or border on national parks. This may have important implications for the environment and the country's ability to get its tourism sector off the ground. Second, a real appreciation of the shilling, resulting from the large

resource flow, could reduce competitiveness especially of Uganda's agricultural exports, with severe implications to export diversification, value addition and entry into manufacturing. The so-called "Dutch Disease" will be minimized if productivity raises by reducing transport costs through better infrastructure and logistics, providing a reliable electricity supply at competitive rates, and reducing the cost of doing business.

Sectoral and institutional Context

8. In Uganda the private sector, including agriculture, is the major employment source of an estimated 16-million strong workforce. It is characterized by two distinct types of enterprises. On one hand are the few large enterprises with more than 50 employees, comprising less than 1 percent of all enterprises. On the other hand are the vast majority of firms, primarily micro, small and medium enterprises (MSMEs), which sell mostly to the local market, face severe resource constraints, and contribute modestly to the economic growth and exports. As shown in Annex 6, according to the Uganda Bureau of Statistics, 70 percent of firms are micro firms.

9. Firms remain primarily in low value added, labor intensive areas of production. Although wages are low, productivity is even lower and, as a result, it is difficult for Ugandan firms to compete in international markets. Total factor productivity is lower in the manufacturing sector in Uganda than it is in most other countries in SSA. It is also far lower than in the countries in Africa and East Asia that have successfully entered export-oriented manufacturing. The country is also lagging in agricultural productivity behind SSA averages. Low productivity in agriculture in part is a function of lack of investing in business development services by many Ugandan firms. In sectors with weak value chain linkages including agriculture, it becomes important for stakeholders along the value chains (including farmers, traders and processors) to collaborate and create strong commercial links in order to maximize gains and to accelerate the pace of commercialization which is key to increasing productivity. However, lack of available financing creates challenges for investing in such services for many firms.

10. The World Bank and other donors have undertaken a number of studies and surveys of the private sector of Uganda, all leading to the conclusion that business environment is not sufficiently conducive for private sector development. The country performs poorly in the World Bank Doing Business (DB) Report: it was ranked 120 (out of 185 economies) in 2013, compared to 119 (out of 183 economies) in 2012. In the Global Competitiveness Index 2012-13 Report, Uganda also ranked rather low: 123 (out of 144 countries measured), down from 121 in 2011-12. The major constraints affecting firms in these reports were access to land, starting a business, licensing, and dealing with construction permits.

11. Land administration reform has the potential to be truly transformational for Uganda's economy. Sound land policies are known to be a catalyst for commercialization of agriculture. However, they are also essential for facilitating flows of private investment into industries, creating new jobs, stimulating mobility and structural change, as well as ensuring well-functioning cities and sustainable resource use. In Uganda, where land policies are currently very cumbersome and land tenure security is weak, investors cannot yet be sure of reaping the full benefits of land deals and investments. At present, only 18 percent of the country's land is registered, with registration of rural land being as low as 5 percent, and land administration is highly inefficient and characterized with corruption. Risks remain very high for both investors and communities, thus limiting volumes of investment.

12. Successful land administration reform could dramatically improve attractiveness of Uganda for investors while protecting the land rights of local communities:

- **Agricultural Development.** Sound land policies can facilitate growth in agricultural productivity via secure land tenure, which enhances opportunities for investment.
- **Industry Development.** Significant opportunities could open up for the development of a number of sectors, for example, manufacturing. Currently manufacturing firms in Uganda lack access to serviced industrial land. With improved access to land, manufacturing firms in Uganda would be able to construct warehouses, showrooms and houses for workers, which would give a significant momentum for the industry
- **Increased Employment.** New investments and productivity sparked by increased and secure access to land would mean new jobs, and these are critical, especially for Ugandan youth, who have a high unemployment rate
- **Improved Access to Finance.** Improved access to land would enable firms in the private sector to secure loans using land as collateral
- **Enhanced Stability.** Security of property rights and the ability to draw on local or national authorities to enforce those rights would be central to preserving livelihoods and maintaining social stability in Uganda. Enhanced social stability would make Uganda more attractive for potential investors

13. Another major problem for Ugandan firms relates to high transaction costs from operating legally:

- **Business registration,** which is inefficient, slow and a significant barrier for entering the Ugandan market, continues to be a burden for enterprises. Poor business registration practices repeatedly appear on the list of complaints both locally and internationally. According to the DB Report 2013, starting a business in Uganda requires 15 procedural steps and takes 33 days, with a cost amounting to 76.7 percent of income per capita: this ranks Uganda number 144 among 183 economies analyzed on this indicator, significantly behind such regional neighbors as Rwanda (8), South Africa (53), and Tanzania (113). Forty-eight percent of surveyed microenterprises in Uganda noted that the financial cost of completing registration procedures was a serious barrier⁷.
- **Business licensing** is an additional encumbrance for businesses. The multiplicity and overlap of business licenses, levies, fees and permits that exists at the national and sub-national government levels creates unnecessary costs and stymies business activities. Uganda ranks 113 in the DB Report 2013 on the Dealing with Construction Permits indicator, which represents a decline of 3 points in the ranking compared to the previous year. Uganda ranks significantly behind South Africa, Kenya, and Rwanda, which received ranks of 39, 45, and 98, respectively in the DB Report 2013.

14. In order to avoid the high cost of compliance with the rules, a lot of firms choose to operate informally and, as the result, gain an unfair advantage over formal firms that bear all the cost. In 2009, about 39 percent of surveyed MSMEs noted that competition from the informal sector was a serious constraint on doing business, and informality appears to have become a greater constraint since the earlier 2004 assessment. Easier registration and licensing processes could have a major impact on the reduction of transactions costs for firms operating formally and improvement of their competitiveness. It could also motivate firms in the informal sector to transition to the formal sector,

thus leveling the field and also contributing to the increase in government revenues.

15. Laws and regulations that control business activities are a great hindrance to entrepreneurs in the high-potential sectors of Ugandan economy, such as tourism, but this sector also faces other important constraints due to its specific nature. Uganda's tourism is constrained by persistent gaps in policy and institutional framework, as well as by minimal marketing and promotion activities. The lack of training and, consequently, poor capabilities of tourism workers, have been repeatedly cited as a binding constraint for the industry, limiting the employment generation opportunities. The World Economic Forum's (WEF) Travel and Tourism Competitiveness Index (TTCI) rated Uganda 114 and 115 respectively (out of 139 countries) in education and training together with availability of qualified labor for this subsector.

II. Proposed Development Objectives

The development objective of the project is to improve the competitiveness of enterprises in Uganda by providing support for: (i) the implementation of business environment reforms, including the land administration reform and (ii) the development of priority productive and service sectors.

III. Project Description

Component Name

Land Administration Reform

Comments (optional)

Component Name

Business Registration and Business Licensing Reforms

Comments (optional)

Component Name

Tourism Competitiveness Development

Comments (optional)

Component Name

Matching Grant Program for MSMEs

Comments (optional)

Component Name

Project Implementation

Comments (optional)

IV. Financing (in USD Million)

Total Project Cost:	102.50	Total Bank Financing:	100.00
Total Cofinancing:		Financing Gap:	0.00

For Loans/Credits/Others	Amount
BORROWER/RECIPIENT	2.50
International Development Association (IDA)	100.00
Total	102.50

V. Implementation

19. The Project will be implemented by 2 agencies, PSFU and MLHUD. PSFU will have the overall responsibility of project coordination. The Project Coordination Unit (PCU) will be established in PSFU to implement Business Registration and Business Licensing Reforms; Tourism Competitiveness Development; and Matching Grant Program for MSMEs components. The MLHUD will have the responsibility for the implementation of the Land Administration Reform component.

20. The project staff contracted by the MLHUD and the PSFU will provide ongoing support to project activities, including those related to monitoring and evaluation (M&E) of project results during the implementation. In order to strengthen and complement capacities of the PSFU and MLHUD, the component will support staffing of these institutions to strengthen project-related operational requirements, procurement and financial management systems.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09	x	
Physical Cultural Resources OP/BP 4.11	x	
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12	x	
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

VII. Contact point

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VIII. For more information contact:

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