

Emmanuel Tumusiime-Mutebile: Contribution and development of Uganda's private sector

Remarks by Mr Emmanuel Tumusiime-Mutebile, Governor of the Bank of Uganda, at late Professor James Mulwana Open Business Symposium, Kampala, 26 February 2014.

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Honourable Minister for Trade, Industry and Cooperatives

Chairman, Private Sector Foundation

Chairman Uganda Manufacturers Association

Executive Director, Private Sector Foundation

Ladies and Gentlemen

I would like to begin by thanking the Board of Directors and the Management of the Private Sector Foundation for graciously inviting me to speak at this occasion, when we remember the life and career of Professor James Mulwana and the immense contribution, in multiple fields, which he made to this country. I want to commend the Private Sector Foundation for the initiative to celebrate the legacy of a man, who rose from humble beginnings to become one of Uganda's leading entrepreneurs and most probably its greatest industrialist through hard work and talent for business, combined at all times with honesty and humility.

James Mulwana served on many boards of directors and committees of various national, regional and international organisations as Chairman, Member, Trustee and Patron, in addition to being Thailand's Honorary Consul General to Uganda. He received many awards in recognition of the leading role which he played in building the private sector in Uganda. Few would doubt that both the nature of his success and the way in which it was achieved are an inspiration to Ugandans, and especially to those who seek to pursue careers in the world of commerce and industry.

James Mulwana was, first and foremost, an industrialist who established and built up several successful industrial enterprises. There may be people in this country who had never heard of his name, but it would be very hard to find anyone who has not purchased or used one of the products from his businesses: the Nice pens; plastic products in our homes; batteries for vehicles; and dairy products.

It was as an industrialist that James Mulwana made his most profound contribution to the growth of the Ugandan economy and it is on the lessons we must learn from his endeavours in this sector that I would like to dwell this afternoon. Unfortunately, the success which James achieved in manufacturing and agro-processing stands out because it is so unusual. Formal sector manufacturing in Uganda, which includes agro-processing, accounted for only 6.1 percent of GDP in 2012/13, a share which has only slightly risen since the start of the millennium when it stood at 4.9 percent of GDP.

The formal manufacturing sector's failure to generate much faster growth over the last decade is a major cause for concern, because in developing economies this sector plays a crucial role in driving productivity growth and the structural transformation of the economy. Average real growth of formal sector manufacturing over the last 13 years was a respectable 6.9 percent, but that is still far lower than the growth rates of the sector which are needed to propel structural transformation.

The failure of the manufacturing sector to become the engine of growth of our economy can be attributed, I believe, to both weaknesses which are internal to many businesses in Uganda and to constraints in the business environment. I will briefly elaborate on these problems.

Let me start with the way in which businesses are managed, because it is in this area that we can learn so much from the career of James Mulwana. His businesses were successful over the long term because he understood and put into practice the fundamental principles of managing a successful commercial business in a competitive market economy. A successful business must first and foremost, have sustainable profitability as its priority objective. It must also re-invest the bulk of its profits in improving efficiency; if it does not it will lose out to more efficient competitors. No business will remain viable if profits are instead taken out to fund the conspicuous consumption of its owners. Most businesses need to borrow money from banks or other lenders, but borrowing should be prudent and should only be used to fund expenditures which benefit the business and can be repaid from the cash flow of the business without disrupting its operations.

No business will be successful in a competitive market unless it employs modern professional management, with the requisite qualifications and experience. A business which is used to provide employment for the relatives of the owners will lack the necessary expertise to survive. Finally, the sustainable success of a business requires building a reputation among its customers for high quality and reliable products.

These principles are important for businesses in all sectors of the economy, but they are particularly important for those in the manufacturing sector. This is because manufacturing products are tradeable across borders, so markets for these products are very competitive. In competitive markets, firms cannot afford to stand still. To thrive they must continuously improve their efficiency which is only possible if they generate profits and then re-invest these profits in the business.

Unfortunately these principles of modern business management are not universally applied in the private sector in Uganda, which is one of the reasons why many companies fail to generate sustainable profits, struggle to repay their loans, suffer from low levels of productivity and cannot increase their market share. It is also one of the reasons why foreign owned companies are more successful than many domestically owned companies. To be successful on a sustainable basis, Ugandan entrepreneurs must learn from the success of James Mulwana and adopt a modern professional approach to the management of their businesses.

I would now like to turn to the overall business environment in Uganda. There is no shortage of independent evidence of the shortcomings of the business environment in Uganda. The World Bank's Doing Business Indicators for 2014 ranks Uganda against other countries in the world on several different features of the business environment. Overall, Uganda ranks 132nd out of 189 countries, a fall of 6 places from 126th in the previous year. Uganda ranks very poorly in several important facets of the business environment including getting the relevant permits to start a business, the lack of reliable power supplies, registering property, dealing with construction permits and trading across borders. The World Economic Forum's 2012 Executive Opinion Survey, which is reported in The Africa Competitiveness Report 2013, sheds further light on the problems facing the business sector in Uganda. The Executive Opinion Survey asked respondents to select and rank the most problematic factors for doing business. The respondents in Uganda ranked corruption as the most problematic factor for business.

The quality of the institutional environment for business plays a critical role in determining private investment rates. A poor business environment increases both the costs and the risks of doing business. Weaknesses in the business environment are a serious impediment to the mobilisation of private investment, an impediment which cannot be mitigated by offering tax holidays. Uganda's private investment rates remain fairly modest at only 18.5 percent of GDP in 2012/13, which is less than half of the private investment rates achieved by fast growing developing economies in Asia. If Uganda is to mobilise the much higher levels of private investment which are necessary if its vision of becoming a middle income country is to be attained, the institutional weaknesses in the business environment and the other

constraints which raise the cost of doing business, such as the poor quality of infrastructure, must be rectified.

The long term development of the Ugandan economy will only be possible if the private sector is the engine of economic growth and if the manufacturing sector plays a prominent role in the economy. The business career of James Mulwana demonstrates that the Ugandan private sector can succeed, provided that it follows his example of applying modern commercial principles to the management of business. The public sector must also play its part in reforming the business environment in Uganda, so that it becomes more attractive to private investment.

James Mulwana was an inspiration to Ugandans. May His soul rest in eternal peace.