BANK OF UGANDA

Remarks by

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At the 9th Annual Uganda Top 100 Mid-sized Companies' Awards- Gala Dinner

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Executive Director, Uganda Investment Authority
Country leader, KPMG Uganda
MD of Monitor Publications
MD of DFCU Bank
CEOs/MDs of ICEA General Insurance, Vodafone & South African Airways
Invited Guests,
Ladies and Gentlemen,

Let me begin by thanking KPMG for inviting me to this Gala Award Dinner for the top 100 mid-sized companies in Uganda and also to commend both KPMG East Africa and the Nation Media Group/Monitor Publications for this laudable initiative. It is laudable because this section of the business community – the mid-sized companies – is crucial for the future growth and development of our economy, as I will explain in my remarks tonight. The top 100 mid-sized companies will not only offer recognition to outstanding corporate achievements but also provide valuable information about this section of our economy.

The main reason why mid-sized companies are so important for economic development is their productivity. Sustainable increases in the per capita incomes of a country require sustained growth in labour productivity. Uganda cannot hope to reach middle income status without a very substantial rise in labour productivity.

In a developing country like Uganda, the main source of labour productivity growth is the modern business sector, for reasons I will discuss shortly.
The modern business sector in many respects is conterminous with medium sized and large companies. In Uganda, there are few large companies, so the modern business sector of our economy mainly comprises mid-sized companies.

The Bank of Uganda's annual Private Sector Investment Survey (PSIS) provides valuable information on this sector of our economy.

The 2016 PSIS (which is available on our website – *www.bou.or.ug*) provides data derived from 630 companies which responded to a questionnaire; and these companies comprise the majority of the largest companies in Uganda.

More than 70 percent of the companies covered by the PSIS had an annual turnover within the thresholds for defining a mid-size company for the purposes of the KPMG Gala Awards; i.e. a turnover of between Shs 360 million and Shs 25 billion.

The data in the PSIS enables us to estimate the average labour productivity, defined as value added per worker, of the sampled 630 companies. In 2015 this amounted to Shs 38 million in current prices. For the economy as a whole, value added per worker in 2015 was just over Shs 5 million. Hence the companies surveyed in the PSIS generate labour productivity which is more than seven times the average for the entire Ugandan economy.

Not only are the mid-sized companies much more productive than the economy as a whole, their labour productivity has been growing much faster than that of the rest of the economy. In real terms, the labour productivity of the companies covered by the PSIS increased by an annual average of 5.1 percent between 2010 and 2015. This is much higher than the estimated 2.2 percent average annual labour productivity growth for the economy as a whole over the same period.

Why are our mid-sized companies so much more productive than the rest of the economy, which mainly consists of small scale, micro and household enterprises? There are four reasons for the large difference in productivity.

The first is that mid-sized companies are able to realise economies of scale that small and micro enterprises are unable to do. In many types of business, especially manufacturing, efficiency depends on being able to operate at optimal economies of scale. Operating at a larger scale also allows individual staff to specialise in specific tasks which raises their productivity.

Secondly, mid-sized companies combine labour with capital equipment, thereby raising substantially the productivity of labour. In contrast, at small scales of operation, the use of many types of capital equipment is not economically viable, so most small and micro enterprises use very little capital which means that their labour productivity is low as a result.

Thirdly, mid-sized firms are large enough to employ professional managerial and technical specialists which enable them to utilise their resources most efficiently. Fourthly, by applying modern management techniques, mid-sized firms can generate continuous productivity improvements through "learning by doing"; that is utilising the knowledge gained through their own production activities and those of other firms to make these activities more efficient. Economic growth theories have identified learning by doing as one of the most important sources of long run growth.

One of the weaknesses of the Ugandan economy is that the modern business sector still comprises a relatively small share of it. The companies surveyed in the PSIS comprise only 5 percent of GDP.

Although these companies have achieved robust productivity growth, their share of the economy is too small for their productivity growth to make a substantial impact on that of the economy as a whole. Therefore, if we are to transform our economy into that of a middle income country, we must expand the size of the modern business sector many times.

The fact that the modern business sector has remained a relatively small part of the overall economy despite a quarter of a century of consistently robust real economic growth indicates that there are major barriers to investment by this sector. The 2017 Global Competitiveness Report, published by the African Development Bank, the World Economic Forum and the World Bank, lists some of the factors which impede the competitiveness of the Ugandan economy. These include some aspects of the institutional environment, especially pertaining to public administration, poor infrastructure, higher education and training, and technological readiness.

The long term prospects for our economy depend on creating a business environment which is conducive to attracting investment by mid-sized companies on a large scale. If this sector is to expand to command a much larger share of the Uganda economy, which is necessary if per capita incomes are to rise substantially; thousands of new mid-sized companies will have to invest in Uganda.

The factors needed to attract private investment on such a scale include prospects for strong long term growth in markets for goods and services, macroeconomic stability and a competitively priced workforce. They also include a clear and transparent institutional environment with clear rules and regulations which are implemented fairly to create a level playing field for all investors and which protect the legitimate rights of businesses.

To strengthen the business climate in Uganda, the business community should play a more prominent role, through its collective institutions such as the Private Sector Foundation and the Uganda Manufacturers' Association, in identifying and highlighting obstacles to investment and business expansion and lobbying for economic and institutional reforms to remove or mitigate these obstacles.

There are many important public policy debates in this country, about for example the appropriate level of tax rates and import tariffs, the types of skills needed in the labour force, the type of infrastructure that is required, and the importance of regional integration, which would benefit from the collective voice of the business community. I hope that events such as this Gala Awards Dinner can help to stimulate the debate that is needed in Uganda to strengthen the business environment and attract much more private investment.

Finally, I congratulate all the entrepreneurs here tonight, especially those that have received awards, and encourage them to use their experience to nurture and mentor other aspiring entrepreneurs, so that we can collectively expand the formal business sector in this country - that is vital for employment generation.

Thank you for listening.