

Full Length Research Paper

Fiscal impact of privatization in Uganda 1992-2007

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Accepted 23 October, 2019

The study investigates the fiscal impact of privatization in Uganda by looking at subsidies as expenditure and taxes from privatised State owned enterprises (PSOEs) as well as sale proceeds from divestiture as revenue. Using mostly documentary evidence from government official and 31 previously state owned enterprises (PSOEs) records, the findings reveal a mixed fiscal impact of privatization. Privatisation left the subsidies more or less the same. Subsidies in nominal prices were constant from 1992/1993 to 2004/2005 period. In today's Uganda, however, there was no link between subsidies and the central government budget. On the contrary, taxation from PSOEs increased four times as a result of increased business particularly in industry that increased 7 times while trade and services doubled. But Privatisation failed to achieve the expected sales proceeds target of US \$500 million target set by World Bank, managing only US\$172 million by end of June 2006 due to asset undervaluation and stripping.

Key words: Privatization, state, ownership, enterprises, private, public, Uganda.

INTRODUCTION

In 1992, Uganda, on the prodding of World Bank and International Monetary Finance (IMF) decided to privatize her 156 state owned enterprises. The country made a plan to sale her state enterprises (SOEs) within a decade. One objective of the policy was to reduce the budget deficits through divestiture and also generate some revenue for the Treasury. The government targeted cutting the annual US\$280 million SOE subsidies, and also anticipated raising US\$500 million sales proceeds. While the program is still on-going, the only assessment of the policy was in 2000 by Ddumba and Mugume (2001), and there was lack of an up-to date evaluation of policy. This paper intends to cover that gap. The paper investigates the fiscal impact of privatization by looking at subsidies as expenditure and taxes from previously state owned enterprises (PSOE) as well as sale proceeds from divestiture as revenue. The paper has three sections. Part one deals with subsidies and budget deficits. Part two covers tax revenue and privatization moneys from sales proceeds, while Part three is the conclusion.

SOES SUBSIDIES BEFORE AND AFTER PRIVATIZATION

Tracing the impact of privatization on subsidies and

budget deficits suggests that in nominal terms subsidies have remained constant from 1991/1992 to 2004/2005 and have been almost de-linked from the central government deficit, especially since 1998/1999 when the central government deficit started rising; but its origin would have to be identified in other areas of the government expenditures other than the allocation of subsidies to the state enterprises..

Subsidies before privatization

Tracing the link between subsidies to the budget deficits show a fall from 37 to 9% in 1992/1993 and 2004/2005 respectively explained by increasing budget deficit. The budget deficit itself multiplied four times from Shs. 427.3 to Shs. 1692.9 billion in 1992/1993 and 2006/2007 respectively while the subsidies remained more or less the same. The rise in budget deficit after 1998/1999, unlike between 1991/1992 and 1997/1998, seem not to have been linked to subsidies but other factors (Figure 1).

The impact of the subsidies on budget deficit is displayed in Table 1 and Figure 1. The subsidies appear in row 2, budget deficits in row 3 while the impact of subsidies on budget deficits is in row 4.

The rising budget deficit was partly due to low tax

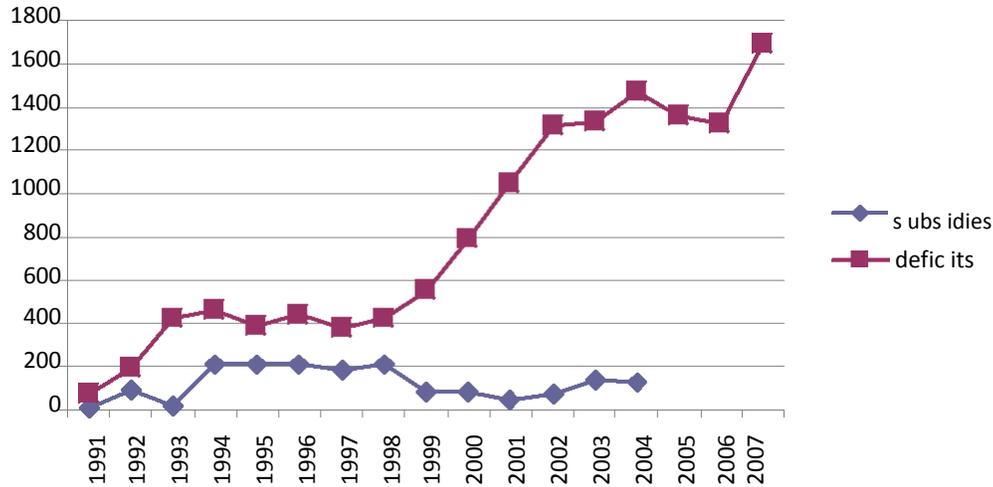


Figure 1. Uganda's SOEs Budget Deficits and Subsidies in Billion Shs 1991-2007.

collections. Tax revenue, as a percentage of Gross Domestic Product (GDP) was one of lowest in Sub-Saharan Africa (SSA), standing at 11.3 % in 2001. Targets for a better tax revenue output focused on improving tax administration as a strategy. On the prodding of the IMF and the World Bank, Uganda Revenue Authority (URA) set a new target of achieving a tax-GDP ratio of 17% by 2006/2007 from 12.3% in 2002, in order to reduce the dependency on external resources for government budgetary expenditure. However, this was a very difficult venture since introduction of new taxes could be misunderstood by investors as a tax policy reversal. The government believed that there were no easy tax policy options to enhance tax revenue through introducing new taxes or increasing existing tax rates since that could signal a policy reversal discouraging investment (MOFPED, 2001: 14-15, 22). World Bank advice and inability to raise internal funds left state enterprises with state subsidies as the only option.

The origins and need for subsidies

The need for government transfers arose partly from World Bank advice as well as limited capital base of Ugandan firms.

The World Bank advice

During the colonial period industrialization in particular and development drive in general used local finances but this changed to borrowing after independence and on the advice of the World Bank. Marcussen Henrik Sercher and Jens Eric Torp, (1982) argue that the Second World War greatly hurt the financial clout of the British economy such that in order to maintain a source of raw materials

and a market for finished goods, Britain had to produce in the colonies using local capital.ⁱ From 1940 onwards, the British allowed the Uganda colonial government to retain a large part of the earnings of the peasants in the form of "Price Stabilization Fund" (PSF). Between 1948 and 1953, the colonialists established SOEs using local capital from the accumulation of savings from the sales of cotton and coffee during the Korea war. In total, between 1945 and 1960, the state re-capitalized an amount equal to £119.0 million of which £44.5 million was earmarked for investment. The colonial government levied an export tax of 15-20% on cotton and coffee between 1948 and 1958, 13% in 1959 and 17% in 1960. Despite considerable transfers to the central government over the years for budget support, the balances accumulated to £37 million by mid-1954.ⁱⁱ This nice method of financing could have continued were it not for independence.

In 1960, two years to independence, the British colonialists hatched a plan to link the Uganda economy to the British one in terms of capital, technology and market. The colonial government of Uganda requested for experts to make a 15-year development plan for the country. The nine-man strong mission recommended that since the world prices of coffee and cotton had dropped, and could not be used as a source of capital, the country needed to borrow (World Bank, 1962: vii). Contrary to British expectations, Britain lost her monopoly over Uganda and borrowed capital opened the country to greater imperialist exploitation.

Before independence, the country had been a British enclave as a source of raw materials, a market for finished goods and source of monopoly capital. Using borrowed capital, however, opened the country wider to both bilateral and multilateral imperialism than before. For instance, Italian firms established base in steel; Britain maintained its position in banking, distilleries, and chemicals; and Japan competed with the British and Russians

Table 1. Impact of SOE Subsidies on Budget Deficit in Billion Shs. 1994-2007.

Year	1990/ 1991	1991/ 1992	1992/ 1993	1993/ 1994	1994/ 1995	1994/ 1996	1996/ 1997	1997/ 1998	1998/ 1999	1999/ 2000	2000/ 2001	2001/ 2002	2002/ 2003	2003/ 2004	2004/ 2005	2005/ 2006	2006/ 2007
Subsidy	5	91	15	209	209	207	210	186	214	79	84	49	72	134	127		
Deficit	78	196	427	457	385	438	381	421	550	791	1051	1311	1336	1467	1363	319	1693
Percent	6.6	46	37	46	54	47	55	44	39	10	8	4	5	9	9		

Source: Ministry of Finance, Planning and Economic Development (MOFPED) (2002). Report Tables 5 and 7; MOFPED (2006) Draft Report.

in textiles (Mamdani, 1983: 13). Despite borrowing, more money was needed for development.

Inadequate generated Funds from operations

Although most of the SOEs started with optimism of 'determining the charges to ensure coverage of expenditure, loses and depreciation of assets' this never occurred due to inflation, embezzlement and non-payment. A number of statutory bodies identified good sources of internal finance. For instance, Uganda Tourist Development Corporation (UTDC) had interest earnings, its successor Uganda Tourist Board (UTB) the tourism levy, Uganda Tea Growers Corporation (UTGC) the tea levy, Coffee Marketing Board (CMB) the coffee Price Assistance Fund (PAF) and National Social Security Fund (NSSF) a series contributions, income on investments, fees, fines, penalties and interest on dues; while Uganda Development Corporation (UDC) had management fees, dividends and secretarial and other services rendered to her subsidiaries.ⁱⁱⁱ This internal funding was problematic due to inflation, embezzlement and default.

First, the rates were kept fixed for long periods of time without review during an inflationary period and could not cover costs as was with Uganda

Tea Growers Corporation (UTGC). Second, uncontrolled embezzlement termed '*ghost workers*' became a major problem for some firms, as was the case in the UTGC and Uganda Posts and telecommunications (UP & TC). UP & TC, at one time, *could not ascertain the actual labour force during the year due to maintaining names of retired, dead and other ex-staff on her payroll.* Third, government was the biggest user of SOE services but always failed to pay in time. Hence, government used SOE services that it neither promptly cleared nor paid interest on the long-outstanding debts. Interestingly, when government lent state enterprises money it attached interest, but state enterprises such as Uganda Airlines Corporation (UAC), did not charge interest on the government debts. Although government charged UAC interest on the government loans, UAC did not charge interest on money the government owed the airline. On one occasion, UAC requested the Ministry to offset a debt of approximately Shs. 4 billion (US\$2 m) that government owed UAC, but this was rejected.

Subsidy types before privatization

All established SOEs had a similar financial set-up including government grants that formed the

greater bulk of the subsidies and loans or guarantees, none of which was adequate. All this money was deposited in Bank account (s) approved by the supervising Minister.

Government transfers

Although all SOEs required government transfers, the extent varied in three ways that also depicted SOE types. The first was whereby an enterprise's capital base also depended entirely on the Treasury as were most statutory firms including the NTB, Uganda Planning Authority (UPA), UTGC, UTDC and the UTB (Table 2). The second type was where government apportioned an initial amount but the firm could also generate moneys of her own such as Bank of Uganda (BOU), National Insurance Corporation (NIC), and Uganda Commercial Bank (UCB) with capital of Shs. 30 billion; £250, 000; and £2 million respectively. These firms were either partially or wholly commercial. The third and last group included 'commercial' SOEs such as Coffee Marketing Board (CMB), Uganda Railways Corporation (URC), UP & TC and NIC that, on top of the initial grants, generated money from commercial activities. Interestingly, although government transfers played a major role starting relatively bigger firms than the private sector, it

Table 2. Examples of statutory SOE financing types before privatization.

Enterprise	Sources of funds	Borrowing	Expenditure	Investment
NTB	1) Government grants, 2) Loan; 3) Any other moneys received in discharge of duties Bank approved by Minister	Approved by both Finance & Supervising Minister	1) According to budget and approved by Minister, 2) supplementary funds	Approved by both Finance & Supervising Minister
UTDC	-do- + interest earnings + treasury advances	Approved by Finance Minister		Approved by Finance Minister and may invest in consolidated fund
USC	-do-	-do-		-do-
BOU	Authorized Shs. 30 b subject to review; Issues & paid up Shs. 20 b	n/a	N/a	1) Bank/government to Share profits in ratio of 25:75; 2) transfer to consolidated fund½
NHC	-do-	Approved by Supervising Minister 1) Temporary loans Limit <£100, 000; 2) long term loans Limit <£5 m	n/a	n/a
UCB	1) Authorized £2 m subject to review; 2) general reserve fund where transfers of profits are made. Transfers are ¼ profits if <RF is <paid up capital or 1/8 profits if <RF is < 2 x paid up capital; 3) Consolidated Fund receives the balance	Limit Determined by Supervising Minister	n/a	n/a
UTGC	-do- + tea levy	Approved by Supervising Minister 1) Temporary loans Limit <£400, 000; 2) long-term loans Limit <£3 m	n/a	Board with approval of minister invest money not readily needed required in any securities approved by the board
UP&TC	-do-	Approved by Finance Minister	n/a	In any project with approval by both Finance & Supervising Minister

Table 2. Contd.

UTB	-do- + tourism levy + interest earnings	Approved by Supervising Minister		n/a	n/a
Uganda Air Cargo Corp.	-do-		n/a	Determine a charge to ensure coverage of its expenditure, losses & depreciation of assets	n/a
NIC	Authorized capital =£250, 000 all by government divided into £50, 000 shares and subject to review by Supervising Minister		n/a		n/a
URC	-do- + interest on savings	Borrow through issue of stock and limit approved by Finance Minister			n/a
CMB	-do-+ Coffee price assistance fund	Approved by both Finance & Supervising Minister		The board shall perform its functions in a balanced budget way including provision for depreciation & renewal of assets	Board temporarily invest money not readily needed required in any legally accepted venture or other money approved by treasury
NSSF	1) Contributions, income on investment, fees, fines, penalties and interest on dues; 2) loans etc	Approved by Board			n/a
					All monies in the fund not immediately required shall be invested by board with approval with Minister

NTB , National Textiles Board; **UTDC**, Uganda tourist Development Corporation; **USC**, Uganda Securicor Company; **BOU**, Bank of Uganda; **NHC**, National Housing Corporation; **UCB**, Uganda Commercial Bank; **UTGC**, Uganda Tea Growers Corporation; **UP&TC**, Uganda Posts and telecommunications; **UTB**, Uganda Textiles Board; **NIC**, National Insurance Corporation; **URC**, Uganda Railways Corporation; **CMB**, Coffee Marketing Board; **NSSF**, National Social Security Fund.

was not sufficient to meet SOEs' financial needs because government rarely fulfilled her financing obligations due to financial limitations despite the clear regulations. The effect was poor service delivery and limited service by SOEs that found themselves short of funds to run their operations constantly. For instance, UAC was under-capitalized to the extent that it neither could afford to buy jets of its own nor acquire modern equipment to run cargo handling on international

standards at Entebbe Airport. In order to cope, it turned to the expensive option of plane leasing and sold shares in cargo handling (to ENHAS) to inject in more capital and improve the services.^{iv} Another state enterprise, UP&TC, simply scaled down operations before privatization. Although the firm had initially started operations without discrimination, limitations of capital forced it to slowly narrow its transmission of communications operations to cater for government priorities only.^v

UP & TC later conceded that it lacked enough funds to cover the entire country to people's satisfaction. A third example of inadequate government financing was the 1970s "nationalization on credit" where government nationalized private enterprises without paying for the shares. All these pointed to the poor financing of the SOE sector, suggesting that it could have paid dividends to allow some private competition in order to attract additional financing and

improving service delivery. Neither the grants, nor the loans were easy options.

Guarantees and loans

Although borrowing was generally authorized, loans were not an easier option either due to collateral and credit biases. Borrowing was deemed authorized if approved by both finance and supervising Ministers, a supervising Minister alone or by the Board. In the regulations, government promised to guarantee loans on behalf of the SOEs and even fixed limits. For instance, National Housing and Construction Corporation (NH & CC) and UTGC were allowed temporarily amounts not exceeding £100, 000 and £400, 000 while long-term limits were set at £5 million and £3 million respectively. For UCB, it was the Finance Minister who had the discretion of setting the limit. Lastly, URC was allowed to sell stock but this was mockery since no Stock Exchange existed between 1970s and 1990s (Table 2).

First, the unsettled issue of ownership posed a problem to many SOEs to raise loan capital. A good example of such deadlock was the Uganda Hotels and the Departed Asians Property Custodian Board (DAPCB) in the 1990s. While Uganda Development Corporation (UDC) set up Uganda Hotels, control was transferred to Ministry of Tourism; but the ministry could not borrow because it could not mortgage assets that legally belonged to UDC. Second, Uganda's banking sector frustrated export trade and industry due to the unrealistic collateral demanded. Traditionally, bank credit discriminated against industry due to the nature of the security borrowers offered. Although banks normally demanded land, the business community possessed other types of security; partly leading to sector bias in credit allocation. Banks demanded land titles and factories as collateral (security) for export guarantees in particular and credit in general, and refused export confirmed orders or mineral reserves as mortgages. The irony was that no land in Uganda could guarantee the huge export values usually involved. Some Banks in Africa like the Export and import (EXIM) Bank in Cairo, Egypt, were innovative and accepted confirmed orders as guarantee. Mining faced similar discrimination as exporters,^{vi,vii} and miners were equally frustrated. Local banks refused to accept mineral reserves as collateral security. Bias against lending to the mining sector created the problems of under-exploited mineral deposits due to lack of capital to invest in the sector and needed to explore the viability of confirmed export orders and mineral reserves for loan security in order to boost export and mineral sector growth.^{viii ix}

The effect was that while trade and other service sectors held the lion's share of bank credit, claiming 54.3%, manufacturing accounted for 23.2%, agriculture constituted 8.8%, Transport, Water and Electricity sectors 10.5%, the building and construction sector remained at

3.3%, while mining and quarrying activities remained low at 0.2% of the loans portfolio in 2003.^x The bias against industry was general and historical.

The failure to mobilise cheap development capital was racial and historical and not general. While the Asian businessmen in the country managed to solve capital problem by pooling resources together for investment, this was not the case with black Africans in Uganda. There was lack of mutual trust among African traders leading to failure to cooperate to form partnerships and companies, unlike the Asian businesses which thrived on family partnership, and this sort of spirit needed to be inculcated among African traders (Republic of Uganda, 1968: 3-4). Ironically, while black Africans found it easy to contribute to social events, this was not the case for business. Hence, there was need for campaigns to educate the African communities in the country to cooperate and form companies in preparation for growth and industrialization. Mobilization of the local masses could be done using the existing institutions in which people had trust like the kingdoms, churches or clans. But probably the colonial government that created African peasants and Asian traders did the biggest harm that has not been rectified by subsequent regimes.

During the colonial and post-colonial times the European and Asian commercial banks which existed, did not extend credit to Africans although they gave credit to other racial groups. The cause for the segregation was not clear but might have been lack of collateral security. The government loans to aspiring businessmen and industrialists were also inadequate (Republic of Uganda, 1968:3-4). In order to enable Africans access loans, the UCB was started in 1950 by the colonialists. As it has been argued, the reason for which it was created is even greater now than in the colonial times^{xi} Instead of selling UCB, government should have considered other alternatives like reducing staff, closing some loss-making branches, contract management and maybe selling some shares to Ugandan businessmen.^{xii} Hence, capital became one of the main contending issues to enterprise development. Just like loans, internally generated funds were equally inadequate.

Despite their inadequacy subsidies created a big impact in SOE financing and development. State enterprise capital on average was bigger than that of their private counterparts and SOEs filled the gap of large-scale enterprises. A private enterprise had a smaller capital base averaging as little as Shs. 30, 000= (US\$15) to 50, 000= (US\$25) for micro firms and Shs. 300, 000= (US\$150) for medium-sized ones. In comparison, SOEs had bigger capital. For instance, UCB and NIC had capital of US\$2 m and US\$250, 000 respectively. The Treasury made the difference in financing and development, so much so that privatization proved doom for PSOEs. After privatization, the majority of PSOEs were unable to raise further capital as evidenced by the reduced interest in total annual expenditure such as

Table 3. SOE Subsidies in Billion Shs. in 1993/1994-2004.

Subsidy	1993/ 1994	1994/1 995	1995/ 1996	1996/ 1997	1997/ 1998	1998/ 1999	1999/ 2000	2000/ 2001	2001/ 2002	2002/ 2003	2003/ 2004	2004/ 2005	Change
SOEs #					41	41	38	21	31	38	36	36	+
Direct	19.4	56.2	52.3	100.3	8.8	8.9	11	24.4	9	27.6	52.5	22.7	-
Equity	78.7	55.3	52.1	3.4	40.4	41.2		1.7		-		25.8	+
Financial	57.0	65.9	72.8	71.6	74.7	82.5	56	56.6	32.7	42.4	80.1	75.4	-
Fiscal	18.0	20.5	89.7	7.7	45.0	57.5	12	0.8	0.6	1.4	1.7	2.9	-
Others	35.3	10.5	20.3	26.9	17.0	23.6			6.8				
Total	208.5	208.6	206.6	210.1	186.1	213.9	79	83.6	49.3	71.5	134.4	126.9	-

=number, + is rising subsidies, - is falling subsidies; =change

Source: Background to the budget, 1999/2000; MOFPED (2006). Draft report.

those in Beer, Soda, Meat, Pharmaceuticals, Energy, Transport and Telecommunications with 15.7, 20.5, 0.6, 4.3, 27.2 and 8.6% point reduction respectively. On the contrary, those that were comfortable included British American Tobacco Uganda (BATU) and Uganda Clay Works Limited (UCWL) that managed to secure bank financing as evidenced by increasing borrowing by 17.9 and 14.5% points respectively; the sugar companies that continued with government financing; the Uganda Electricity Board (UEB) split firms that enjoyed government guarantees; and the banking sector that had it easy due to falling deposits rate.^{xiii} Subsidies, therefore, made possible the existence of some sectors that would not have emerged at all under pure market system that pursue a profit.

Subsidies after privatization

As earlier stated, subsidies to unsold State Enterprises (SOEs) remained more or less the same between 1994 and 2004/2005. These results, however, had problems that the official records ignored other government transfers to the PSOs and private sector. The subsidies, therefore, while pronounced constant, could be indeed rising.

While general subsidies remained more or less the same, individual subsidies impact was mixed: some rising such as for direct and financial while others were falling such as for equity and fiscal terms (Table 3). Subsidies that reduced were equity and fiscal, while those that increased were financing and direct terms. The financial terms included loan arrears, interest payments and low interest loans. The fiscal terms included tax exemptions on imports, and zero interest rates on arrears of tax payments and counter subsidies were government used services of SOEs on credit. Lastly, equity included grants or equity funding from either donors or government (Ddumba and Mugume, 2001: 46-47). This failure for the overall general subsidy to fail to change was explained by bailout operations performed by President Museveni,

government guarantees to UEB split companies, undervalued assets during privatization, and state contracts discussed next.

Bailout operations: Client-patron relationships

Despite privatization and government attempts to pull out of business, the state covered the losses, particularly those belonging to three Asian businessmen. President Museveni operated bailout operations to former state enterprises explained as "strategic intervention in vital sectors generating employment and fighting poverty through helping businesses that generated wealth".^{xiv} The most notable and frequent beneficiaries were three Asians, namely, Mehta, Madhvani and Sekhar Mehta. For instance, in August 1998, government paid US\$4 million of the first Mehta debts owed to two foreign banks. So far government had sunk a total of US\$95 million since Museveni assumed power, divided between Mehta Group (US\$68 m) and Madhvani Group (US\$27 m).^{xv} The Madhvani Group is a multi-million-dollar empire that extends to the entire EAC region, India and Canada. In Uganda, it was active in the sugar, oil, beer and steel, electricity production and tourism, accounting for 10% of Uganda's national income and employed over 15,000 people.^{xvi} In addition to picking the Asians' debts, government gave them other sweeteners through inflated payments.

The Asians also received inflated payments for shares of several former state enterprises companies such as Kakira Sugar Works (KSW) and Cable Corporation. In 1972, government nationalized firms without paying for the 51% shares taken over. Government explained that during the 1970 nationalizations it took over several private firms including the Mehta Group on credit terms and was paying for the shares at the time of privatization and re-possession.^{xvii} While reason for payment was not contested, the inflated amount eventually remitted was. Government made a payment of Shs. 47 billion (US\$23.5 m) in KSW for shares valued at Shs. 4.2 billion (US\$2.1 m)

by Price Waterhouse. In 1971, government acquired 49 % shares in Madhvani Sugar Works Limited (MSWL) on nominal terms. In 1972, in order to capitalize its shares, government agreed to invest in Madhvani Sugar Works (MSW) only US\$2.4 m through promissory notes paid over two years. This arrangement collapsed in 1972, however, after the military coup and expulsion of Asians. But negotiations resumed in 1986. The monthly payments from January 1992 to December 1999, inflated the original US \$2.4 m to £30 m (about US\$ 36 m).^{xviii, xix} Financial bailout was not for all but Asians and not local investors.

In contrast and with the exception of only a local exporter of hides and skins, government refused to bail out other former state enterprises sold to local investors such as UAC, Uganda Meat Industries (UMI) Kampala, Nyanza Textiles Limited (NYTIL) and Paper Company (PAPCO) that cried out for help. For instance, UAC needed Shs. 2 billion (US\$500, 000) to fund her operations. On three occasions, it was bailed out to a tune of US\$3 million (Shs. 3 billion). The fourth time, however, there was no alternative but to sell shares to Entebbe Handling Services (ENHAS) in order to raise the money.^{xx} Several other PSOs such as NYTIL, PAPCO and a private local Bank – International Credit Bank (ICB) solicited for support in vain. In only one case, the local exporter of hides and skins, government guaranteed the loan. Unlike these local investors who failed, Uganda Meat Industries (UMI) Kampala succeeded.

In what appeared to be political campaigning, President Museveni in 2004 guaranteed a local exporter of hides and skins that had gone bankrupt to the tune of over a US\$22m to pay his debts. Museveni had exhausted his two-term constitutional service and wanted the constitution amended to open the limit. At a public rally in Western Uganda, the President disclosed that he had asked the Bank of Uganda Governor to rescue UMI Kampala-a former state enterprise. Before his bankruptcy, the local exporter, Basajabalaba, was among the leading exporters of hides and skins and his enormous assets included hotels and a private university.^{xxi xxii} The hides and skins business generated \$20.25m (about sh34b) annually. The tycoon received Sh20b (US\$10m) to resuscitate his business empire under Government guarantee.^{xxiii} Government favoured Asians to local entrepreneurs for political reasons.

Both the media and opposition politicians explained the Asian preference to local investor as a political strategy by the National Resistance Movement (NRM) government to entrench herself in power. First, the media argued that government preferred foreign to local investors because in a crisis, the former were likely to support the government in power in order to protect their investments unlike the latter that could ally with the opposition to change government. Second, opposition politicians stated that the government policy, besides being strategic, was also selfish because President

Museveni wanted to impoverish Ugandans so that they could respect him and also be easily governed.

Government guarantees to the PSOs in energy sector

Despite privatization, government guaranteed loans totalling close to US\$1 billion representing 3.3 times of the 1992 Uganda budget deficit in the name of development since privatization kicked off in 1992 (Table 4).

The biggest beneficiary of guarantees was Uganda Electricity Board (UEB) (a PSO in the energy sector). Before privatization UEB, produced, distributed and regulated energy in Uganda, hence combining commercial and non-commercial activities. On privatization in March 2000, UEB was broken into separate liability companies for generation, transmission, distribution and regulation. The successor companies were Uganda Electricity Generation (UEGCL), transmission (UETCL), and distribution (UEDCL), all operating under the direction of the Electricity Regulatory Authority (ERA). While the UEDCL owns and operates the grid connection electricity supply infrastructure operating at 33 KV and below, the UETCL owns and operates the transmission infrastructure above 33 KV. The UEGCL owns and operates the Kiira and Nalubaale hydropower stations at Jinja (UEB, 2000: 7). Despite privatization of UEB, the split companies still enjoyed enormous state guarantees due to lack of working capital, rural electrification and the need to export power. The subsidies to the energy sector were explained by upgrading and refurbishment of sub-stations, rural electrification and extension of the national grid, and improving the Balance Payments (BOP).

First, although government had constructed the grid lines, it lacked finance to refurbish and upgrade three 132KV primary substations costing US\$6.35 million. The Norwegian Government came to rescue and gave Uganda a tied grant of US\$5.1 million conditional on borrowing another US\$1.26 million from a Norwegian commercial source^{xxiv} [Table 4, Row 4].

Second, despite privatization of UEB government still pursued social objectives in the energy sector that included “*continued intervention in socially desirable areas like rural electrification and extension of the transmission grid*”. Government still footed fixed costs in the energy sector despite privatizing UETCL. Such scheme was the introduction of a rural electrification fund to facilitate a systematic increase of electricity coverage in the countryside^{xxv, xxvi} itself arising out of environmental concerns.^{xxvii} Third and last, the need to improve the country's BOP position made subsidies stay on.

Government had the ambition of becoming a long-term electricity exporter in the region to exploit the extensive water resources, waterfalls and a very stable hydrological

Table 4. Government guarantees to PSOs & private sector since privatization.

	Lender/Borrower	Date approved	Purpose	Sector	Amount in '000 US\$
1	European Investment Bank (EUB)/	March 1997	Availing long-term financing long to small and medium sized investments by private sector companies or ventures in Uganda	Multi-sectors	33,000 (ECU 25,000)
2	Svenska Handelsbanken AB Sweden /UEB	June 1997	Co-financing contract 6 of Owen Falls Extension under the Third Power Project	Energy	15,000
3	Eksport Finance of Norway/UEB	Dec. 1998	Refurbishment of the 132kV Sub-Station under the third power project implemented by UEB	Energy	1,280
4	CDC/AES	Nov. 1999	Build power station at Bujagali	Energy	430,000
	World Bank/			Energy	375,000
5	IFAD	2004	Oil palm growing (BIDCO)	Agriculture	112, 000
Total					591,280

PSOs, previously state owned enterprises; **EUB**, European Union Bank; **UEB**, Uganda Electricity Company; **CDC/AES**, commonwealth development corporation/Allied Electricity Suppliers; **IFAD**, International Fund for Agricultural development; **BIDCO**, Biw Company

Source: Parliament of Uganda

regime along the River Nile then. Due to the limited initial market for power, potential lenders, especially the World Bank advised the country to start with Bujagali (250 MW) and later Kalagala (350 MW) on the basis of alleged *least costing* in conformity with a hydropower development Master Plan.^{xxviii} Consequently, the government embarked on negotiations with Kenya, Tanzania and Rwanda^{xxix} to increase demand of Ugandan hydropower and agreed with Kenya and Tanzania to increase export sales of electricity to these countries in order to address Balance of Payments (BOP) problems (Republic of Uganda, 1999: 3, 7, 9). But negotiation with Rwanda did not succeed due to bickering between the two countries. In addition, more hydro power was needed to solve the acute power shortages in the country arose out of mismanagement in the 1970s. Completion of the Owen Falls extension was not a solution to the power shortage and what was required was construction of new and large expensive hydropower stations. As a result of UEB leverage arising from the rehabilitation and extension of the Owen Falls, government opted for independent power providers (IPPs). Donors argued that IPPs would provide a fairer return on investment; attract new financial resources into the sector; assume the risks of construction, cost over-runs and operations; and efficiently operate the projects better than the state. Hence, the bigger guarantees originated from government's promotion of these IPPs. Two companies Allied Energy Suppliers (AES) Nile Power and Arabian International

Construction (AIC) indicated interest in hydropower development. AES was granted rights to investigate and develop Bujagali Falls (1995), AIC to develop the Kalagala Falls, and Norpak Power Limited^{xxx} to develop Karuma Falls in 1997 (Republic of Uganda, 1999: 2-3).

The very first hydro-electrical power (HEP) project by IPP was the US\$500m AES Nile Power at Bujagali. This was the World Bank's biggest funded single investment in Africa then^{xxxi} and proposed to construct a hydroelectric station at Jinja with an initial four units generating 200 MW of power with a possibility of upgrading it to 250 MW. The project included construction of extensive transmission lines to transmit the power from site to the city and separately to the Owen Falls Power station and to add flexibility and strength to the national grid. The estimated cost was US\$515 million,^{xxxii} while completion was to be in 44 months. The donors included International Finance Corporation (IFC), Commonwealth Development Corporation (CDC), Overseas Private Investment Corporation (OPIC), and Export Credit Agencies while AES Nile Power was to contribute 25% of the project funding (Republic of Uganda, 1999: 5). The AES project stalled due to allegations of corruption^{xxxiii} but was later given a go ahead in 2007 by World Bank.

The informed public argued that there was no guarantee that power produced from Bujagali dam would be injected into the national grid in the hands of profit minded investors who had failed to eliminate power losses of over 33% and charged higher tariffs on the

pretence that it was because of thermal fuel when neighboring Kenya used more thermal and paid less. At the time, Uganda's electricity was more expensive at over US\$ 23 cents per unit compared to Kenya's US \$19 and Tanzania's US\$9 and these two countries produced over 300 and 70 MW of their electricity from thermal respectively compared to Uganda's 100 MW thermal. Unlike other countries, Uganda had left her power sector, the engine of economic growth, with private investors. There were many examples in and outside Africa to show that power sectors were best run by national governments and not private investors. For instance, in Africa, Algeria produced 6,468MW, Morocco 4,687 MW, Ethiopia 1,200 MW and South Africa 4, 0676 MW but their sectors were being run by the national governments. Outside Africa, Canada produced 104,371MW, China 116,287 MW, Japan 268,287 MW and South Korea 54,673 MW but these governments still run their power sectors.^{xxxiv}

Three lessons emerge from the AES project. First, private sector-led development can only occur in *profit making sectors*, as the UEB example shows. In sectors that are highly capital-intensive and require long-term infrastructures such as power gridlines or railway lines and harbours, government must step in. This also questions whether full privatization would ever take place in Least Developed Countries (LDCs), since profitability of some SOEs conflicted with development. For instance, the telecommunication sub-sector that was left to the private sector in Uganda, the distribution of telephones was biased against the rural areas. Secondly, as shown by the negotiations between Uganda and Rwanda, Tanzania, and Kenya, both local and external markets can limit private sector development (PSD) in LDCs. Uganda tried to help the firms in export markets, though they were privatized as shown in the Uganda negotiations with Rwanda, Kenya and Tanzania. Hence, markets were political constructions that thrived with good bilateral relations. While Uganda managed to export power to Kenya and Tanzania, she failed with Rwanda due to political differences between the two countries then. As such, instability in the Great Lakes region and other LDCs greatly influenced the growth of industries and regional trade. Third, inflating of budgets was not only a government phenomenon but also all other private institutions that interacted with government and this could result into siphoning off of scarce foreign exchange from LDCs as the AES example shows. IPP in Uganda represented a potential method of siphoning scarce foreign exchange out of the country. As such, privatization was not a complete solution to the budget-maximizing behaviour of government. One dilemma was that the state could not be completely eliminated.

In summary, despite privatization and the government's free enterprise rhetoric, it supported private firms as well as PSOEs through bailout operations and guarantees and state contracts. Such continued government support,

however, is still challenged by scholars in search of possible alternative solutions that should have been used instead. Given the fact that PSOEs exhibited the same financial problems as before privatization, it prompts us to question whether other options, such as capital restructuring, could have been better than outright sale.

Capital restructuring: As an alternative, restructuring should have looked at changing the capital structure of enterprises away from interest paying to cheaper means of capital; and outside government support subsidies were indeed cheap means of capital, but not private source. In this way, cheap financing could have represented an alternative to privatization. While it was true that subsidies allocation was another term for cheap financing, what was required was something that left out the state and thus de-links SOEs from the Treasury. For instance, the textiles and energy sectors should have sought cheap financing such as the sale of preferential shares or company bonds to the public. Although outright sale of a SOE to a capital-strapped 'core investor', emphasized by the policy, changed ownership, it could not solve the capital problems of several enterprises. If a buyer of the PSOE did not have money of his own, the result would be liquidation as it turned out in the textile sector with Nyanza Textiles Limited (NYTIL) and African Textiles Mills (ATM); or continued government support, as was the case with UEB in the energy sector. Basing on the share of interest on total expenditure; cheaper financing could have solved 33.7-47% (basing on UEB annual report and current study respectively) of UEB's problems and 54.9 % of NYTIL's. Thirty per cent of UEB financial costs could have been systematically replaced by cheaper non-interest finance like preference shares that actually did not require change of ownership.

Privatization took a stranger turn in the sugar industries where government footed financial losses and bailed them out. The sugar industry had a whopping 456.2% interest of total expenditure before privatization. After privatization, the interest expenditure increased to 482.6% overall. The sugar industry-generated losses amounting to 588% that were footed by the government made privatisation questionable. In a normal private sector, poor managers bore the burden of the losses through bankruptcy. As it was, the two sugar factories of Sugar Corporation of Uganda Limited (SCOUL) and Kakira Sugar Works (KSW) were private, but government-funded and continued declaring losses after privatization. The analysis of the sugar sector, however, needs to be taken with some two cautions.

First, SCOUL and KSW companies' accounts were consolidated and also included several other subsidiaries outside the sugar sector. Secondly, the increase in interest expenditure from 456.2 to 482.3% in the sector could also be due to the increase in the number of firms in the sample that moved from two (SCOUL and KSW) to three (including K;SW) before and after privatization

respectively. KiSW was 'privatized' under a management contract in 1992. Hence, interest expenditure might have been higher simply as a result of more enterprises in the sector than before privatization. To sum up, enterprises with financial costs as high as; 456.2% for sugar, 54.9% for textiles, 19.1% for beer, 33.7% for energy and 28.1% for banks needed a review of their dear financing. With the exception of banks that usually keep high gearing ratios, most firms needed to reduce their gearing by moving away from loan capital to cheaper financing methods such as preferential shares. But as I show immediately, government did not only support PSOs financially but also through state contracts.

Undervaluation of SOEs sold to state employees

During the privatization process at least seven (9%) out of 74 SOEs were undervalued and sold to government employees^{xxxv} costing government Shs. 4.3 billion (US\$2.2) (over US\$2,152,000 at US\$=Shs.2, 000).^{xxxvi} Undervaluation (AV>SP) was calculated as the excess of asset value (AV) over the sales price (SP). The undervaluation was explained by politics and weak private sector.

First, the ruling party supporters included cabinet ministers, presidential advisers, National Resistance Movement (NRM) supporters and Members of Parliament (MPs). In order to marshal political support, the ruling NRM either undervalued or condoned default. One hotel was both undervalued and the buyer also defaulted. Valued at Shs. 322 million (over US\$162, 000), Lira Hotel was sold to Showa Trading enterprises after it was undervalued by Shs. 72 million (US\$37,000). Despite the leverage, the buyer defaulted on the balance of Shs. 200 million (over US\$100,000). With the exception of only Uganda Meat Packers (UMP) Soroti, all SOEs sold to political supporters were undervalued.

ENHAS's shareholding before privatization included UAC with 50% majority stake, Efforte and Global Airlinks each with 20%, Sabena 5% and the workers of the UAC and the Civil Aviation Authority (CAA) 2.5% each. The first two highest bidders, Dairo Air Services and South African Alliance Air, had offered US\$6.5 million and US\$ 4.5 million respectively were ignored.^{xxxvii} Prior to the sale, the firm was valued at Shs. 5 billion (US\$2.5 m) and Shs. 8 billion (US\$4 m) by Ernest Young and DFCU respectively. Undervalued between US\$812, 500-2, 312,500, the firm was sold to relatives of President Museveni who owned Global Airlinks and Efforte Corporation ignoring the two highest bidders.^{xxxviii} But this was not the first time the President's brother, Salim Saleh, interfered in the privatization process.

Earlier on, Salim Saleh was involved in Uganda Grain Milling Company (UGMC) sale that he bought and re-sold the next day in a speculative deal. Incorporated in 1955 as a private limited liability company with four

subsidiaries,^{xxxix} the SOE had a record of profit making approximating over Shs.500 million (US\$250, 000) annually, dividend distribution and capacity utilization of 60%.^{xl} Before privatization, UGMC shareholding included government with 78.9%,^{xli} DFCU 16.7% and other minority shareholders with 4.4%.^{xlii} Caleb International bought 51% of the government's 79.1% shares at Shs. 5.3 billion (US\$26.5 m) ahead of the highest bidder (UNGA, a Kenya-based Food Company) in 1997 citing "Ugandan ness" this time round. Interestingly, although "Ugandan ness" was the criteria used for awarding the company, the partners named by Caleb International in securing the UGMC bid were overseas firms -Tiger Oats and a South African company Number One Foods (PTY) Ltd.^{xliii, xliv} As earlier explained, undervaluation did not only favour the first family but also several other NRM supporters.

Other National Resistance Movement (NRM) supporters bought White Horse Inn and Soroti Hotel causing a financial loss of Shs. 290 million (US\$145, 0) and Shs. 137 million (US\$68, 500) respectively. While White Horse Inn went to Kabale Development Company owned by a Governor of the Central Bank, a transport and communication Minister and a former managing director of the Uganda Commercial Bank, the Soroti Hotel was sold to Speedbird Aviation, belonging to an MP and later to become Minister of State for Health (General Duties)^{xlv} while other party supporters were pacified through debt-write off that received mixed results: succeeding over UMI Soroti but failing over Printpak Limited.

Established in 1956, UMI Soroti used to slaughter and retail beef for both local and export markets till it closed in 1985 due to insurgency in Teso. The Soroti Meat Packers was sold to Teso Agro-Industries Company Limited (TAICO) belonging to a presidential advisor at US\$300,000 (Shs. 300 million) with 50% paid immediately and the balance a year after.^{xlvi,xlvii,xlviii,xlix}

TAICO defaulted on the outstanding debt of Shs. 150 million (US\$150, 000) blaming it on the war in the Teso region. Later, the balances were written off as war losses in accordance with the deeds of assignment that were signed by the two companies in end of 2000. Besides Uganda Meat Packers Soroti, two other hotel buyers of Hill Top Hotel Kitgum and Acholi Inn Hotel benefited from the arrangement (Republic of Uganda, 2000: 146).

The Printpak buyers, however, were not so successful in having their debts cancelled. Sold for Shs. 900 million (US\$450, 000) to New Printpak (U) Limited belonging to the then First Deputy Prime Minister; a Transport and Communications Minister; Presidential Media Adviser, in May 1996, the government sold only plant and machinery but retained the land and buildings that reverted to government.^l When government demanded payment, the buyers accused government of selling them encumbered assets that they could not use to access loan financing [Republic of Uganda, 2000: 146]. At least two Asians

benefited from undervalued SOEs; although these had genuine, commercial reasons for the low prices. The first Bank of Baroda Uganda Limited and a paper company (PAPCO Industries)ⁱⁱ undervalued by Shs. 1 billion (US\$500, 000) and Shs. 100 million (US\$50, 000) respectively, citing market and capital problems.ⁱⁱⁱ

Second, undervaluation was expected even before sale if the locals were to buy SOEs. What was not expected, however, was the preferred sale of the SOEs to NRM cadres and family members of President Museveni. Before sale, it was realized that the locals would not be able to buy all assets offered for privatization. Total SOE assets exceeded all the amount of money in the Ugandan Banks. While total SOEs assets were valued at Shs. US\$ 1 m (Shs. 200 billion), the entire money supply was just shs. 50 billion and bank deposits stood at shs. 46 billion end of January 1989.ⁱⁱⁱⁱ

State contracts

In Uganda, like in Asian countries, private companies in the manufacturing sector depended on the state to create a market for them. After privatization, government created contracts where they should not have existed in the first instance, and in an inefficient manner that also maximized the budget, thus hurting the taxpayer. Two examples of The Uganda Metal and Enamelling Company (TUMPECO) and NYTIL, help illustrate the case of state contracts and firm survival.

The TUMPECO case involved issue of new national motor vehicle number-plates immediately after the privatization of the firm. Government and TUMPECO hatched a plan to replace car number plates in the country citing depletion of the existing ones. The media argued that the reasons given by the government that existing ones were depleted or that the change was for security purposes were not convincing. First, although Uganda Revenue Authority clarified that the new number plates would run concurrently with the old ones and no deadlines were set, the racket was intended to force everyone to surrender his or her old number plate by August 1999 after paying US \$76 to TUMPECO for motor vehicles and US \$37 for motorcycles, which totalled to US \$10 million. In the end, no vehicle kept its old number plates. Second, the media argued that given the available technology, perforation was not difficult to forge, which defeated the purpose of the new, security waterproofed number plates.^{liv}

The NYTIL case involved President Museveni instructing the Defense Minister to contract Nylil Picfare based in Jinja to produce army uniforms in 1996. The Defense Ministry tendered the supply of army uniforms in two categories of plain and camouflage. While a pair of army uniform from China cost US \$8, Nylil Picfare imported the same and sold it to government at a price nearly three times higher. Fourteen and sixteen companies tendered for the green and camouflage

uniforms respectively. Nylil Picfare quoted US \$19 for green while another Ugandan company, Eladam, quoted US \$9.50. For the camouflage, NYTIL quoted US \$20 while the lowest Karmang International quoted US \$11.05 per pair.^{lv} NYTIL, the dearest bidder, won the tender for both types, raising suspicions of ignorance, petty nationalism or corruption.

Analysis of the granting of the tender seemed to suggest misinformation of alternative sources, petty nationalism or at worst corruption. It was either misinformation or petty nationalism to award the tender to a Ugandan firm and not to the internationally more competitive and cheaper Chinese firms whose prices were far lower compared to all the local quotations. By taking this option of awarding the tender to NYTIL, government squandered US \$11 on each green and US \$12 on camouflage uniforms respectively and squandered US \$23 on both. Hence, even with privatization, state contracts still exercised budget maximizing behaviour because of petty nationalism, corruption or simply ignorance. Like with expenditure, privatization's impact on revenue-side was equally mixed, increasing tax revenue but failing to generate targeted SOE sales proceeds.

TAX REVENUE AND PRIVATIZATION MONEYS

Investigating the impact of privatization on tax revenue and sales proceeds gave mixed results with big leap in tax revenue but failure to hit the expected targets from SOE sales.

Tax revenue

After privatization, tax expenditure increased 4.4 times from Shs. 3.2428 billion to (US\$1.6 m) to Shs. 17.6453 billion (US\$8,822,650) with the increase in industry exceeding the trade and services sector in 31 SOEs studied (Table 5, Row 10). The leap in tax revenue was explained by scrapping of tax incentives in 1997 (although they bounced back in the 2003 budget), as well as increased production and efficiency.

Finance state minister in charge of privatization, Peter Kasenene, explained increased taxation as due to overall efficiency that improved due to privatization, thus paving the way for management innovations and inventions. It also led to new and improved products and services and consequently increased profitability.

The number of former state enterprises joining the big taxpayers' category was on the increase from nine in 2003 to 20 three years later. In 2003, the nine leading taxpayers in the country were PSOs and they increased their tax payments by between 40 and 100%. These included NBL, Crown Beverages, Shell Uganda, Total Uganda, Stanbic Bank and BATU.^{lvi} Three years later,

Table 5. Industrial Costs in 31 Surveyed SOEs/PSOEs in Billion Shs. 1986-2003.

Costs	Before privatization				After privatization			
	Total costs**	Annual mean***	Annual mean for Industry	Annual mean for TRSE	Total costs	Annual mean	Annual mean for Industry	Annual mean for TRSE
Interest	204.9	11.	7.4	3.9	174.4	90.7*	86.8	3.9
Raw materials	80.3	4.6	4.6	0	436.9	24.3*	24.3	7.9
Wages	268.9	14.9	9.3	5.6	164.6	9.1	5.7	3.5
Utilities	29.5	1.6	0.9	0.7	4.8	0.3	0.3	0.04
Transport	28.4	1.6	1.4	0.2	89.1	0.5	0.3	0.2
Overheads	1.2	0.06	0	0.1	16.2	0.9*	0.5	0.4
Taxation	58.4	3.2	1.5	1.8	317.6	17.6*	13.9	3.7
Profit	164.4	9.1	-0.9	10.1	153.1	8.5	-1.7	10.2
Total*	836.1				1276.6			

*recorded increases after privatization; ** total cost is the sum of all the cost of enterprises either before or after. *** Annual mean is the result of dividing total cost is the sum of all the cost of enterprises either before or after by the number of years before/after under consideration.

Source: Calculations based on Enterprise Financial Records, 1986-2003.

more PSOEs joined the list of the first twenty biggest taxpayers.^{lvii}

The other interesting impact of privatization on taxation was the mixed sector effect. Tax burden shifted from trade and services to industry explained by increased business after privatization. While taxation increased 4.4 times overall, the increase for industry was 7 times while trade and services just doubled. Before privatization, trade and services tax expenditure did not only exceed but also bore slightly more tax burden than industry; but this altered after privatization where industry bore the bigger weight (Table 4, row 9; Table 5 row 8).

The Table 5 also shows that the profit in nominal terms has been constant from 1986 to 1993 (almost constant), so in real terms profits decreased. High taxation was problematic because it did not only cause unemployment in tobacco sub-sector but also limited usage of modern communication equipment. First, BATU

argued that the high incidence of taxes on cigarettes were out of line with the size of the economy whereby Uganda had the third highest tax rates on cigarettes in Africa behind Ghana and Kenya, but the per capita income of the latter two doubled Uganda's.^{lviii} Second, mobile phone tariffs were also high due to taxes on the telecommunications sector especially excises duty. For every Shs100 charged, Shs. 28 went to government, divided into 18 Value Added Tax (VAT) and 10 excise duty.^{lix} In two years, tax on airtime doubled from 5% in 2002 to 10% 2004, reducing operators' profits and re-investment because they strove to avoid transferring the tax to customers.^{lx} Uganda had most of the highest mobile phone tax rates in East Africa. Kenya's rate was at 10%, Tanzania's 7%, while Rwanda was promising to introduce the duty. This meant that Ugandans paid between 25-30% taxes more compared with Africa's 17% average. There were over three million mobile phone users with 9% penetration.^{lxi} The high

duties affected affordability of the services especially in rural areas. Although mobile phones were available countrywide, few people afforded them because of the high taxes payable by consumers.^{lxii} This in turn widened the rural-urban divide. Communications growth was only in the urban areas, with the majority of rural Ugandans lacking access to the services. Government had a rural communication policy developed in 2001 to address the urban-rural divide^{lxiii} but both MTN^{lxiv} and Cellular Telephones (CELTEL)^{lxv} also had plans to improve the situation.

Tax review

Given the tax problems of former state enterprises, it was deemed necessary to reconsider reviewing tax policy in order to strike a balance between maximum tax revenue and investment promotion. Some enterprises like Uganda Clay

Table 6. Accumulated Divestiture and Redundancy Accounts in Billion Shs. 1992-2006

Sources and utilization	Accumulated 1-9-93 to 30-6-06			
	Divestiture	Pre-divestiture	Total	Percentage
Revenue				
Sales proceeds			303	76.2
Government contribution			40.5	10.2
others			54.3	13.6
Total			397.8	100
Expenditure: Divestiture costs (DIV) and pre-divestiture costs				
Provision for Bad and Doubtful debts	0.1	-	0.1	
Bad & doubtful debts	29.2	-	29.2	7.3
Caretaker costs (4)	2.4	45.1	47.6	11.9
Creditors takeover (2)	70.9	10.5	81.4	20.5
Professional fees (3)	45.1	26.4	71.5	17.9
Arbitration Award	7.9	-	7.9	2
Terminal benefits (1)	74.9	38.5	113.4	28.5
UTL	4.2	-	4.2	1
Warehouse	0.2	.01	0.3	.03
Deficit			42.2	10.6
Total	234.9 (59 %)	120.6 (41 %)	397.8	99.7

Notes: (1)-(4) is importance in descending order.
Source: Computed from Privatization Unit data, 2006.

Works Limited (UCWL), UEB and Sugar industry could have benefited from lower taxation that could have increased their profitability by 43.2, .50.3 and 20% respectively (Table 4). Basing on UBL analysis, for instance, reform of the enterprises pointed to tax policies review. The Uganda Breweries Limited (UBL, 1998/1999: 14) report revealed that taxes accounted for 50.3% of total costs in 1999. This meant that UBL did not require a change of ownership to solve the majority (73.6%) of its problems and privatization would be a total waste without tax policy change on beer. Possible options to privatization could have included reduction in the tax rates on sugar and beer respectively. Comparing the effect of a tax reduction on tax revenue and compliance, maybe the measure could have had bad effects on tax revenue. The current corporation tax (CT) rate was 30%. Success in tax revenue enhancement, however, did not spread to SOEs' sales proceeds.

Privatization moneys

As can be recalled, World Bank anticipated raising US\$500 million sales proceeds from the 146 SOEs. The ambitions fell short of the targets generating only sh.303 billion (about \$172 million at US\$1=1760), representing 35.6% by end of June 2006 (Table 6).

Cash proceeds from SOEs' sales were deposited in

three different accounts including fixed deposits, operational accounts and the dollar account (Ddumba and Mugume, 2001: 44). These accounts were operated by the Secretary to the Treasury and the Under-secretary to the Finance Ministry. This one account was in deficit as at end of June 2006 (Table 6, row 17).

The divesture proceeds by end of June 2006 amounted to Shs. 303 billion (US\$172 m) and 59% went into divestiture costs, and 41% in pre-divestiture costs. There was a deficit of Shs. 42.3 billion representing 10.6%. Hence, over 89% of the sales proceeds went into divestiture costs, the major ones of which included terminal benefits, creditors or assumed takeover of liabilities, professional fees and caretaker costs.

Terminal benefits accumulated to Shs. 113.4 billion representing 37.3% of sales proceeds and 28.5% of total revenue respectively. Most of this money arose due to payment of outstanding pension liabilities amounting to Shs. 14.6 billion taken over by Privatization Unit Review Sector Programme (PURSP) for UP & TC former workers. The Uganda Communications Employee contributory Pension Scheme (UCECPSW) was finally regularized and could therefore legally administer the pension scheme on behalf of the beneficiaries as well as undertake investments that would yield returns. Another lump sum payment of pension of Shs. 7.2 billion was made to UEB former workers. Upon completion of the all residual issues, the two companies would be

de-registered (MOFPED, 2006: 13).

Assumed takeover of liabilities totaled Shs.81 billion and comprised liabilities assumed from divestiture of SOEs in accordance with PERDS statute. These amounts were still subject to negotiation as part of the debt swap with the relevant parties including the Uganda government. The determination of the eventual amount payable and terms and conditions of payment were subject to the outcome of these negotiations (MOFPED, 2006: 15).

Arbitration awards totaled Shs. 8 billion representing 2%. In 2006, some of these were paid to a Tunisian firm that had bought Nile International Hotel in Kampala. Upon evaluation of the management contract signed between the Uganda Government with M/S Tahar Fourati Hotels Limited in 1995, the Nile International Hotel Board concluded that the buyer had failed to run the hotel according to the business plan and annual budgets deposited on bidding, leading to cancellation of the first divestiture of the Hotel. The buyers sued government for wrongful termination of the contract. Upon advice of the Solicitor General and Parliamentary approval, government settled for an out-of-court award of Shs. 7.9 billion as full and final settlement to the buyers' and lawyers' fees (MOFPED, 2006: 12).

CONCLUSION

The paper set out to establish the fiscal impact of privatization by looking at subsidies as expenditure and taxes from PSOEs as well as sale proceeds from divestiture as revenue. The findings reveal that the fiscal impact of privatization was mixed: leaving the subsidies more or less the same and increasing taxation from PSOEs but failing to achieve the expected sales proceeds. As already hinted, subsidies in nominal prices were constant from the period 1992/1993 to 2004/2005. In today's Uganda, however, there was no link between subsidies and the central government budget deficit (Figure 1). In addition, tax from PSOEs increased four times as a result of increased business after privatization particularly in industry that increased 7 times while trade and services that doubled. Lastly, privatization failed to achieve the sales target of US \$500 million target set by World Bank and just managed US\$172 million by end of June 2006 due to asset undervaluation and stripping.

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xiii Firms with reduced interest meant that their borrowing also reduced while those that in loan capital increased implied increased borrowing. This assumption is based on the logic that volume of interest was determined by the rate of interest and the amount borrowed. But since borrowing rates were constant over the period, then changes in volume of interest expenditure was due to reduced borrowing.

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xvi http://www.africareport.com/company_profile.aspx?Company_ID=107.

xvii (1998), Stop Government Payment of Shs.3.4 billion for Mehta's Local Bank Loans," *Uganda Confidential*, 23-29 October, Number 311.

xviii The promissory notes arrangement collapsed with 1972 nationalizations. In 1980, when Madhvani returned Madhvani Sugar Works (MSW) needed rehabilitation and applied for repossession. Government formed a joint venture in the new KSW and acquired 51 % shareholding and adjustments were made to the 1972 promissory notes on the basis of 1972 nominal values. Rehabilitation was carried out with loans from EADB and the World Bank. When NRM took over, MoF clarified that it's was planning divestiture and no longer wanted a joint venture. In 1991, changes occurred in the MoF that favoured the Madhvani and the promissory notes issue resumed.

xix (1998) Government to Lose US\$20 million in dubious Payment for Madhvani Loans," *Uganda Confidential* 315, 20-26 November.

xx Yunusu Abbey (1998) "Uganda Airlines Sell off ENHAS Shareholding," *The New Vision*, 11 April 1998.

xxi Although Government denied assisting Basajjabalaba to settle the debts using government money, it had an account with HSBC, the Hong Kong Shanghai Banking Corporation. In the deal, the local branch of the HSBC Bank, Equator Bank, deposited US\$11m in Standard Chartered and the latter was urged to fore go the \$11m balance. In 2002, the bank listed shs.24.4b (US\$11m) worth of bad debts. In 2003, Basajjabalaba was compelled to hand over titles of some of his properties to the HSBC as collateral for the US\$11m loan and Government advised him to sell some assets to pay the debt.xxi.

xxii Including Kampala International University (KIU), city Complex Building, Mbarara and Kabale Regency Hotels.

xxiii Allio Emmy & Alfred Wasike (2004) "Basajja bailout strategic – Buturo," *The New Vision*, Friday, 29 October.

xxiv The Kabulasoke sub-station was meant to boost power supply to the Mid Western region, Industrial Area, Kasese, Masaka, Tanzania and Rwanda; while the Tororo one would handle the

Eastern region including Kenya; while the Lira station targeted the Northern region and the districts of Masindi and Hoima (RoU, 1998:1-4).

xxv Sserwaniko Frank (2002) "Power Sector Gets More Attractive," *The New Vision* 11 June.

xxvi The programme interested several financiers in the lucrative but capital-intensive venture, such that ADB committed a grant of US \$2m (about Shs. 3.6 b) on an 18-month study to evaluate the country's potential in renewable and sustainable sources of energy for rural areas in 2001. The areas under focus included geothermal power, peat, solar and wind as alternative energy sources for villages far from the national power grid. This was in addition to another World Bank credit of US \$375m for investors in rural electrification.

xxvii The driving force behind rural electrification was the concern over the environment spearheaded by DCs. Sub-Saharan Africa (SSA) has the lowest access to electricity compared to the rest of the world, despite huge hydro and other energy sources on the continent. Seventy seven per cent and a half of the population in SSA does not access electricity, compared with less than 14 % in Latin America and East Asia. Most SSA African families still rely on animal waste and firewood for lighting, cooking and heating. Although half of African countries can produce hydro and solar power, only 7% of hydropower and 1.3 % of solar generation equipment was installed because of poor infrastructure and the high cost of investments. Only South Africa and Ghana provided electricity to rural areas to address unemployment and access to energy. With the population growth and a need to protect the environment SSA had to replace biomass sources by less destructive energy supplies urgently.xxvii

xxviii The plan conducted in 1996 that produced a sequence scheme of hydropower sites on River Nile on least cost basis where the Murchison Falls came out as the least costly but could not be developed because of environmental reasons, leaving Bujagali, Kalagala and Karuma sites as the only potentials.

xxix The market existed due to unstable water levels in other countries compared to Uganda but was sensitive to political conflicts. For instance, in 2004, the Rwandan power utility company, Electrogaz received a loan of US\$1.6 million from the Bank of Commerce Development and Industry (BCDI, to purchase fuel-driven power generators to supplement on the country's acute, inadequate and fluctuating hydropower supply shortages due to reduction in water levels at their power generating stations that bedevilled the country for the better part of year. The seven power generators from Global Power Systems, a Germany-based firm with Belgian shareholding, would be installed at Jabana Power Station at Kabuye and Gatsata in Kigali and expected to produce 12.5 MW. At the time, the country depended on 28 MW generated from hydropower produced mainly from the northern part of the country. The power generation improvement scheme was estimated to cost Euro 4.3 million co-funded by Electrogaz, the Government of Rwanda and the donor community that would supervise the system rehabilitation.xxix.

xxx A consortium of Norwegian companies

xxxi Yunusu Abbey (2002) "Bujagali Dam Approval Tomorrow," *The New Vision*, 17 June.

xxxii Including interest during construction, US\$71 million was for installing new 220KV and 132 KV transmission lines and associated stations, while the rest of the money was for land acquisition, getting necessary consent, negotiations with and meeting any conditions of the lenders, power sector restructuring and legal framework finalizing and environment impact assessment.

xxxiii By end of 2004, the AES Nile Power had not taken off over allegations of corruption. It was alleged that an Energy Minister had asked for huge bribes from potential investors constructing Kalagala and Karuma. The investors who had offered good financial terms were turned down after failing to provide the alleged US \$240, 000 bribe. It was alleged, that the Minister had demanded US \$500, 000 from the AES Nile Power who agreed to and gave him US \$240, 000 immediately and US \$260, 000 after government had signed the contract.xxxiii Later the allegations were found to be baseless. Interestingly, when AES pulled out of the project, the cost reduced in May 2004 by US\$150 million from US \$500 million to US \$ 350 million. Although, the Energy Minister explained the drop as a result of the reduction in compensation to landowners, environmental studies, project implementation plans, cite clearing and fencing and installing machinery on the site intercepted, corruption could not be ruled out. Construction was expected to commence in 2005 and end in 2009.xxxiii.

xxxiv Dickens Kamugisha, (2007), 'Mr President, let's make Bujagali different,' *New Vision*, 7 May, 2007

xxxv The undervalued amount of US\$336,000 arising from the sale of Margerita Hotel to Reco Industries has been converted to Uganda Shillings at the current rate of US\$1=Shs.1,850. The calculation then becomes US\$336,000x1,850=Shs.621.6 million.

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xxxvii Yunusu Abbey,(1998), "Privatization Unit, ENHAS Sign Sale Agreement: Airlines Staff Wary of Pact," *The New Vision*, Tuesday 5 May.

xxxviii Yunusu Abbey (1998) "Saleh Defends ENHAS," *The New Vision*, 20 April.

xxxix Uganda Millers, Uganda Maize Industries Limited, Uganda Feeds Limited and Bread Limited

xl UGMC had never made a loss and even distributed dividends to shareholders. In 1993, UGMC made a profit of over Shs. 688 million and a turnover of Shs. 10.66 billion and a further pre-tax profit in 1994 of just under Shs.500 million on a turnover of Shs. 10.44 billion.

xli (47% were owned directly by the treasury with the UDC holding 31.2%). xlii (1996), "Grain Milling for Sale," *The People*, 14 February.

xlili Mugunga Jim (1997), "Saleh Sold Grain Mailing Company's shares on buying." *The Monitor*, 9 January.

xliv Matsiko wa Mucoori (1997) "Saleh's Firm Sells off its Grain Milling Company's Shares," *The Monitor*, 6 January.

xlvi www.arrowgroup.ne.ug/cman.html-16k, www.masscom.mak.ac.ug/online/frontpage/musevenicould-html-3k, and registrar of companies Kampala.

xlvi (1994) "Why Fear Privatization?" *The New Vision*, 14 September. xlvii

..... (1994) "Why Fear Privatization?" *The New Vision*, 14 September.

xlviiii Olupot Milton and Odyek, John (1997) "Teso Agro Bus Meat Packers" *The New Vision*, 30 June.

xlvi Olupot Milton and Odyek, John (1997) "Teso Agro Bus Meat Packers" *The New Vision*, 30 June.

lMugunga Jim and Robert Mukasa, (1999), "Kategaya, Engola May Lose Business," *The Monitor*, 26 May .

li The code defines a foreign investor as non-Ugandan person or a company in which a non-Ugandan; or a partnership in which the majority of partners are non-Ugandan hold more than 50 % of the shares. This definition excludes a company registered under the Companies Act (Cap 85) in which the government holds a majority of the shares, whether directly or indirectly; or a corporate body established in the country by law; or an international development agency approved by the UIA; a cooperative society registered under the Cooperative Societies Act; and a trade union registered under the Trade Union Act [Investment Code 1991, s.10 (1) a-d, s.10 (2) a-e].

lii There were other under-priced SOEs including Bank of Baroda Uganda Limited, and PAPCO that had genuine business reasons of market and capital respectively. First, Baroda was sold to Bank of Baroda India (BOBI) for Shs. 2.5 billion when 49 % share valuation by KPMG in October 1997 was put at Shs. 3.5 billion. Basing on KPMG valuation, DRIC had in 1997 decided that initial offer price would be Shs. 5.86 billion with a floor price of Shs. 3.75 for 49 % government shares, but BOBI counter-offered Shs. 2.14 billion. BOBI argued that there were five commercial banks of Asian origin licensed in Uganda including Crane, Orient, Trans-Africa, Trust and Gold Trust that had taken a big portion of Baroda's traditional Asian niche market and a payment exceeding Shs. 2.14 billion would not be commercially viable. lii.

liii Museveni, (1989), *Create True National Capitalists*, *The Star*, and 28 April.

liv (1998) "IGG queries US \$10 million Tender Given to TUMPECO," *Uganda Confidential*, Number 302, 21-27.

lv (1999) "NYTIL Inflates Army Uniform Price," *Uganda Confidential*, 22-8 October , Number 361.

lvi Odeu Steven and Mary Karugaba, (2003), 'Privatized Companies Increase Productivity', *The New Vision*, Tuesday, 11 November,

lvii Juuko Sylvia, (2007), 'Privatized Firms among most profitable,' *the New Vision*, Monday 17 September.

lviii (1998), "BAT Opposes Lifting of Import Ban," *Uganda Confidential*, Number 296 10-16 July.

lix Our Reporter, (2004), *CelTel invests Shs86 billion in Uganda* 3 November.

lx Muwanga David, (2004), "New policy seeks to abolish airtime tax," *The New Vision*, Wednesday, 8 December.

lxi Jjuuko Sylvia, (2007), 'Business: Low Airtime Tax can Boost Government Revenue-Study,' *The New Vision*, Thursday, 15 March

lxii Muwanga David, (2004), "New policy seeks to abolish airtime tax," *The New Vision*, Wednesday, 8 December

lxiii Olaki Emmy, (2004), "Museveni asks phone giants to cut charges," *The New Vision*, Tuesday, 2 November

lxiv MTN Uganda and UTL also had explored ways to reduce rates in the COMESA region and the rest of the World through technological improvements. Nine Countries in the COMESA would tremendously cut down on telecommunications cost and increase bandwidth when the US\$200m project for a submarine fibre cable link was realized. The ESSAy project was an 8,840km high capacity under sea cable from Djibouti to South Africa to provide the missing link to completely encircle Africa with high capacity optic fibre telecommunications network and bridge the digital divide in the region. The EAC coastline was the only part of the African coastline not covered by a similar facility and communication overseas was routed via Europe through international satellite connections that were both expensive and slow because of low bandwidth capacity. World Bank, NEPAD, and various operators in different countries were funding the project.

lxv But CELTEL Uganda had plans to reduce this. CELTEL operated in seven COMESA countries with four million subscribers in SSA planned a single rate for COMESA countries if the COMESA accepted a direct link and liberalization of their communication industries. CelTel. Already a direct link between Congo Kinshasa and Congo Brazzaville had resulted into a decrease in the prices and a dramatic increase in calls. Currently, linking some countries needed an international request and at times calls were monitored. Many governments and leaders in the region wanted interconnectivity at least among COMESA. COMESA had a separate, ambitious, World Bank funded, US\$300 million regional communication highway plan to set up a trans-COMESA communication consortium called COMTEL.