Business and Government Relations in Uganda: An Exploratory Study

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Abstract

This chapter investigates the nature of business and government relations in Uganda. It also explores the extent to which the public sector uses public policy and other means to influence the private sector's decision making and practices for the purpose of achieving economic development. The chapter provides a detailed description of the important role of both sides of this relationship with respect to corporate social responsibility and government regulation in Uganda. It argues that the government of Uganda and its policies are crucial for the appropriate attainment of an effective business and government relationship in the country. It uses data derived from primary and secondary sources to analyze the current relationship between business and government in Uganda. The conceptual framework of this study is based on the new growth theory. The findings indicate that while there have been past weaknesses in the relationship between government and business in some industrial sectors due to inadequate enforcement of policies, the relationship in both sectors has improved over recent decade. In addition, government policies have not been able to effectively galvanize the private sector and NGOs to create a national system of technological innovation and economic transformation. The national government and the leaders of Uganda are still very reluctant to leave economic outcomes in the country entirely up to market forces. The chapter recommends that national and appropriate collaboration between business and government be established so that it can effectively impact technological development and economic growth in Uganda in the future.

Keywords: Business, government, Uganda, perspectives on state and business relations, new growth theory, Government, industrial and business policy development in Uganda, Collaborative and integrative framework for business development in Uganda.

Introduction

Typically, government and business relations (also known as state and business relations or SBRs) describe the relationship or degree of interaction between the public and private sectors of an economy in a given country. Since businesses are powerfully impacted by government policies, (laws and regulations), it is incumbent on businesses to strive not only to understand those government policies that affect their existence, but also and perhaps more importantly, to devise strategies to successfully influence government decision making and public policy to serve their interests. However, as Dirk Willem te Velde (2010, 3) notes, in order for governments and businesses to benefit from such a mutual relationship, they must interact effectively so as to foster a more efficient allocation of scarce resources, conduct a more appropriate industrial policy, remove the biggest obstacles to growth and create wealth more efficiently.

He observes further that, when both entities fail to work collaboratively or engage in destructive adversarial practices, economic activities that are designed to create wealth benefit the few at the expense of the many. Consequently, effective interactions between state and businesses are absolutely necessary for wealth creation and economic development. Although this chapter seeks to examine business and government relations in Uganda, it seems instructive to first briefly examine some of the underlying perspectives that inform the concept of business and government relationships generally.

Contemporary perspectives on Government and Business Relations –or State and Business Relations.

A brief review of some of the contemporary perspectives that have been used to articulate government and business relations is helpful in providing some understanding of the nature of such relations. Over the past several decades, students and observers of government and business relations have used three perspectives to assess the nature of such relations. One perspective considers government and business as two actors, opposed to each other. Widely seen as the prevailing dominant mainstream view following the Great Recession at the end of the first decade of the twenty first century, this "antiregulatory" or limited 'government" view has been attributed to advocates of the notion that free markets with limited government intervention are ideal for the efficient functioning of nations' economies. The main thrust of this perspective is its emphasis on the belief that business relations with government should be predicated on the need to reduce government's role as well as the costs and burdens on private business and the general economy with respect to government taxes, regulations and policies.

By contrast, the other perspective on business and government relations is undergirded by the belief that government should support businesses and provide them with business performance and investment incentives because businesses are the principal sources of jobs, innovation and sustenance of the economic wellbeing of society. To that end, advocates of this view argue that governments should therefore support businesses with grants, tax credits and subsidies.

The third and final perspective on business and government relations maintains that businesses should forge productive partnerships with governments in addressing key societal problems. This view clearly contrasts with the notion that government should be the regulator to ensure that governments act in a socially responsible manner.

At first glance, these views may appear to be separate or independent from each other. However, a careful assessment indicates that they are, indeed, inextricably interrelated. For example, a given business can use some aspects of its relations with government to extract benefits for itself such as the tax credits that it receives form government while at the same time it can partner with government to accomplish a social purpose and in the end attempt to minimize its tax obligations. It is therefore important for businesses to understand how their efforts to operate profitably and to serve a social purpose are greatly impacted by government policies. In that regard, it is also important for businesses to endeavor to manage their relationships with all levels of governments effectively to ensure their own sustainability.

Business Responses to Government Policies

When businesses determine the extent to which government policy impacts their operations and profitability, they usually devise strategies for interacting with government. Typically, businesses respond reactively, interactively and proactively to government policy. Reactive responses entail responding to government policy after it is implemented. An interactive response, by contrast, involves engaging with government policy makers and actors (including the media) to try to influence public policy to serve the interests of the businesses. A proactive response approach entails acting to influence policies, and anticipating changes in public policy. Admittedly, for most businesses a combination of the interactive and proactive approaches is the best strategy

Historical Perspective of Business and Government Relations in Africa and Uganda

William Kalema (2008), notes that historically relations between the private and public sectors in Sub-Saharan African countries, including Uganda, were characterized by mutual distrust and suspicion. He argues that following independence in Sub-Saharan countries, "the most successful local entrepreneurs, were of non-indigenous communities that included the Indians in East Africa, and the Lebanese in West Africa, while European owned firms dominated banking, manufacturing and large scale trade" William Kalema (2008, 4).

Kalema maintains further that political independence from colonial rule was viewed largely as a first step toward economic independence that would end the economic dominance perpetuated by immigrant groups and usher in meaningful changes in the economic fabric of African countries and their relations with developed economies. During independence, average living standards were low and there were few educated or skilled indigenous manpower. Newly elected political leaders had little experience in government management and the citizens expected post- colonial governments to deliver the fruits of independence. Although governments attempted to deliver on the promises of a successful post- independence African environment, the results were mixed.

Nations such as Tanzania attempted to re-orient their economies towards socialism while Kenya attempted to promote indigenous capitalists and attract foreign investment. The vast majority of post –independent African nations created state owned enterprises (parastatals) or expanded those that were created during the colonial period as mechanisms for economic modernization and African economic empowerment. The performance of these "parastatals" subsequently declined as they were plagued by political interference and inexperienced management. In Uganda, the problem was exacerbated by the collapse of political institutions and the loss of professional civil servants. The subsequent privatization of state owned enterprises in the 1990s and concerted efforts to foster domestic and foreign private investment resulted in the emergence of new business ventures including commercial banks, telecommunications firms and manufacturing enterprises. However, Kalema maintains that systematic public-private sector dialogue is a relatively recent development in sub-Saharan Africa, even as the experience of newly industrialized nations indicates that effective government and business relations are essential for private sector driven economic development(2008, 4). In essence, whereas government and business relations in Uganda (and most of sub-Saharan Africa) have improved over the past several decades, they remain essentially weak.

In a similar argument, Goldsmith (2002) posits that while most of Sub Saharan Africa is undergoing substantive political and economic reform characterized by increasing support for the establishment of formal business associations aimed at promoting and protecting trade and industry, no comprehensive studies about the nature, patterns and implications of business and government activities, from a cross national perspective, have been undertaken thus far. Consequently, he wonders, which of the two models, often discussed by observers of business and government relations broadly, applies to Africa: the view that businesses sometimes collude with governments to divert public resources to themselves rather than devout them to more efficient and socially beneficial uses. Or on the other hand, the argument that a collaborative relationship exists between businesses and governments as a means of enhancing national economic performance and contributing to social improvement.

Conceptual or Theoretical Framework

An effective relationship between government and business hinges on the capacity of both entities to develop a framework that would spur economic growth within an economy. The nature of government and business relations in Uganda is one which is predicated on stimulating economic growth in a developing economy which stands to benefit from knew knowledge and innovative economic development approaches. To that end, new growth theory offers a theoretical foundation, which if properly explored and implemented, can shape the basis of government and business relations in Uganda and usher in the type of economic growth and development that the country needs at this point in its political and economic advancement. For the purpose of this study, new growth theory, according to Alexander Rands Barros, (1993) emphasizes a departure from the traditional neoclassical growth model of the concept and instead focuses on the more contemporary interpretation of this theory. The modern interpretation of new growth theory, which can be applied to the situation in Uganda focuses on the understanding that economic growth results from increasing returns associated with new knowledge. It embraces the view that the development of new knowledge is generally seen as an important deriver of economic growth. It argues that for economies to develop or grow they must espouse nonphysical resources which are aimed at increasing the knowledge base (rather than land, labor and capital which were the central tenets of classical growth theory) and sustain the institutions that help develop and share knowledge. Furthermore, because this variant of new growth theory holds that knowledge can generate increasing returns and drive economic growth, government should invest in human capital and the development of educational institutions and skills. Seen in the context of government and business relations in Uganda, government should support private sector research and development and encourage inward or endogenous investment which will bring new knowledge with it. As Joseph Cortright (2001), observes, societies that generate and tolerate new ideas and that continuously adapt to changing economic and technological approaches, establish a precondition for sustained economic growth.

Cortright further maintains that new growth theory and the increasing returns associated with knowledge have several implications for economic development policy. New growth theory underscores the importance of investing in new knowledge creation to sustain growth. He believes that policy makers will have to pay attention to all the factors that provide incentives for knowledge creation such as research and development, the educational system, entrepreneurship, tolerance for diversity and openness to trade (Joseph Cortright 2001, ii).

Justin Yifu Lin (2010), of the World Bank argues that the emergence of new growth theory, new trade theory and new institutional economics have inspired a significant shift towards comparing the market and governments and that has spurred the consensus that states and markets play vital roles in transforming economies especially developing ones. Lin also acknowledges that even developed economies "need constant and strategic state action to support and regulate private businesses and help generate and disseminate on a large scale the technological progress that sustains economic growth" (2010,5).

Evolution of Government, industrial and Business Policy Development in Uganda

While Uganda offers a good example of the current regional shift towards establishing business associations in Africa as an attempt to demonstrate the relevance of effective government and business relations in economic development, it is important to begin by examining the extent to which Ugandan government and business policy development evolved before and after independence.

Unlike most African nations, Uganda was one of the few African nations that had a viable industrial sector before independence. The literature maintains that there were small and medium industries as well as large scale industries. Following the creation of the Uganda Development Corporation (UDC) in 1952, priority was given to industrial advancement as an important component of the nation's development strategy. The UDC was responsible for promoting the establishment of industries, including joint ventures, negotiating finance and attracting direct foreign investment and fostering the establishment of industrial research institutions and related support services (UNCTAD, 2007). Next came the Ugandan Manufacturing Association. Created in the 1960s and revived in 1988, the association, was supported by the United States Agency for International Development in the 1990s to create the Uganda National Forum as a voice for economic policy recommendations. Following the demise of the National Forum, the World Bank supported yet the creation of another group of business promotion organizations known as the Private sector foundation. Uganda's manufacturing sector was developed through import substitution with a focus on the production of consumer goods. Such industries relied heavily on imported factor inputs and were heavily protected and subsidized (UNCTAD 200, 4).

Goldsmith (2000), maintains that the nature of business associations in Uganda, and to some extent in most of Africa, can be explained using two perspectives: pluralism and public choice. Drawing from Pluralist interest groups theory, Gold smith posits that interest groups such as the Uganda Manufacturing Association are "potential sources of socio-political diversity in developing countries" (Goldsmith 2002, 40,). In his view, pluralists view development as a decline of natural relationships followed by an emergence of voluntary and formal organizations, shaped by a new status (such as labor unions, professional bodies or business associations). He observes further that these groups look for common ground as they negotiate and bargain over public policy matters and in the process, win on some issues and lose on some. Gold smith believes that these processes contribute to social stability and enhance changes in the legal and regulatory environment that favors business expansion.

Goldsmith also stresses that contemporary interest groups that exist across ethnic and family boundaries have rarely played an important role in the formulation of public policy in Africa because public policy making often occurs in the absence of an indigenous class of capitalists and that has reduced the possibilities for local businesses to collectively take the lead to press for their policy needs.. Consequently, Africa's business class has allowed itself to be dominated by people of Asian, Middle Eastern or European ancestry, whose ancestry made them convenient scapegoats for nationalist African politicians and constrained their ability to function as unified and effective pressure groups. Pluralists contend that the absence of business political influence in the private sector adversely affects good governance and impedes the ability to manage public affairs and deliver basic services. In that regard, "the private sector needs the state to reduce information asymmetries among firms and government agencies as well as the cost of resolving disputes and enforcing contracts"(Goldsmith 2002,40).

Ultimately, pluralists maintain that countries where private sector organizations are able to speak collectively about public affairs are better off than those that cannot. Goldsmith also believes when businesses, especially smaller ones, act alone they are incapable of participating in meaningful exchanges with governments because they do not have the expertise and resources to engage in policy analysis and political action. However, membership in business organizations with common goals empowers the smaller firms to engage in dialogue with government in ways that would have been impossible for individual entities.

In addition to expanding the range of issues presented for government consideration and debate, business associations can play more crucial roles in development in general by becoming instrumental in building social capital. As defined by Putman, 1993 and Fukuyama, 1995, and cited in Goldsmith, 2002, p.40, "social capital reflects the capability of people to form organizations and take on group tasks, which they argue is important for social and economic progress". Goldsmith further elaborates that unlike the other factors of production, social capital is intangible because it is based on a combination, personal connections, mutual obligations and shared sense of purpose.

Public choice advocates by contrast, present a less optimistic view of business and government relations. Inspired by economic or rational actor models as a means of explaining political decision making, public choice has been favored by economists and has shaped the development agendas or strategies of development agencies such as the World Bank. Goldsmith argues that seen from the perspective of public choice, politics is essentially an issue of rent seeking behavior by influential but nonetheless obstructive interest groups. Economic rents are policy induced gains that would be absent in a competitive market and they include additional income derived from licenses, tariffs, tax incentives, public contracts and direct subsidies. Public choice advocates perceive business associations as playing negative roles because their persistent pressure on governments foster the creation of inefficient government programs that benefit only a few firms at the expense of the larger society. Goldsmith (2002, 41) stresses that business associations constantly pressure the state to adopt new policies that generate additional rents and to eschew economic reform measures, such as trade liberalization or deregulation, that would reduce the creation of rents. He observes further that lobbying for rents often leads to illegal pay offs, kickbacks and other corrupt forms of political influence which are even more detrimental for economic efficiency.

As impressive as the beginnings of Uganda's industrial development policy and strategy was, it paid little attention to human resources management development especially the need to create a functional labor force that was consistent with its model of industrialization and economic development. Local entrepreneurial capabilities and expertise were not fostered and nurtured and despite joint ventures which were tightly controlled by the state, private sector industries were mainly owned by the Asian community. Asian owned businesses were subsequently transformed into state owned enterprises after the expulsion of the Asian business community beginning in 1972. According to the United Nations Industrial Development Organization (UNIDO), the industrialization process did not incorporate the use of technology and like most African countries Uganda did not embrace technology as an essential component of its industrial development policy (UNIDO 2007, 4). As a result of these shortcomings, the prosperity and productivity that had been generated in the industrial sector was short lived. By 1975 manufacturing output in Uganda had plummeted precipitously and average growth was less than 5.0 % and by 1984 it was less than 3.0%. Clearly, private industry was in a difficult situation and to address the problem several economic recovery programs, rehabilitation and development plans were introduced. The programs and development plans were specifically designed to reduce government control of industrial development and its control of the economy and improve the efficiency and performance of industrial enterprises and businesses through the privatization of public enterprises and the strengthening of industrial support institutions (UNCTAD 2007,5). Despite the introduction of the programs and plans alluded to above, the poor performance of industry and business as a result of their susceptibility to domestic and external economic challenges continued to render them weak.

Uganda's Economic Recovery Program and Attempts at Improving Government and Private Sector Business Practices.

From the mid1970s through the early 80s, Uganda witnessed a period of slow economic growth and it was obvious that the country needed an economic development strategy that would spur growth in most sectors of the economy and energize a vibrant private sector. In order to foster the recovery that began in the mid1980s and sustain greater growth, several policies and programs were implemented in the 1990s and beyond.

These included the industrialization Policy and Framework1994-1999, the Structural Adjustment Programs (SAPs), Economic Recovery Program(ERP), and the Poverty Eradication Action Plan(PEAP).While the industrialization policy and framework was established to promote investments that would increase exports, ensure the effective transfer of technology and optimize the utilization of the countries natural resources, its primary objective was to usher in a swift transition from a public sector driven industrial development orientation to a private sector led industrial development approach. In this transitional process the government facilitated the creation of a conducive environment for establishing industry and for supporting sustainable industrial development (UNIDO 2007,5)

Prior to the formulation and implementation of the industrial policy and framework, a number of industrial studies were conducted and funded by the World Bank to provide policymakers and the nation's development partners with reliable information for policy decisions as well as possible opportunities for investment and development.. The Ministry of Industry collaborated with external partners to organize round table discussions that brought together key stakeholders to review the process of industrial development, identify problems and constraints, opportunities and challenges and deliberate on possible policy options to facilitate and accelerate industrial development. Furthermore, strategic consultative groups were established to facilitate increased dialogue between the government and the private sector on critical economic and policy issues. The initial consultative efforts between the Government and private sector were nurtured and the Government devoted its efforts towards creating an enabling environment. Physical infrastructure such as roads, electricity and water supply were greatly enhanced and emphasis was given to investment that was aimed at attracting foreign investment.

Other reform initiatives that were aimed at improving Government and private sector business practices in the 1990s included the establishment of simplified, appropriate and contemporary legal and regulatory frameworks for small and medium size industries (that were better than the old structures), to ensure more effective management of these industries. Industrial institutions and industry support entities such as the Uganda National Bureau of Standards, the Ugandan Industrial Research Institute, the Ugandan Council for Science and Technology, the Ugandan Investment Authority, the Ugandan Coffee Development Authority and the Ugandan Revenue Authority, were also established and supported in the 1990s. Furthermore, the 1991 Investment Code provided for tariff and non -tariff incentives that resulted in the attraction of various private investments in the industrial sector. The UNIDO Report (2007, 6), indicated that the policy and institutional capacity building measures discussed above, resulted in impressive industrial growth of 11.8% in 112, to 17% in 1998. Industrial contribution to the Gross Domestic Product (GDP), increased form 10% in the 1980s to approximately 20% in 1997-1998. The share of manufacturing to GDP increased from 6.2% in 1992 to approximately 10% in 1995. The Ugandan Ministry of Tourism, Trade and Industry reported that the number of industrial establishments in the country increased from 1, 320 in 1989 to approximately 11, 968 by 2005.

The Poverty Eradication Action Plans of 2004-2005 and 2007-2008 were conceived and implemented against the background of the Ugandan government's recognition of poverty eradication as an important element of its development program. Following a long period of political instability and civil unrest in Uganda in the late 1970s and early 1980s, (that was characterized by a collapse of the nation's economy and industry, as well as the prevalence of bad governance and economic management practices), the Ugandan Ministry of Finance, Planning and Economic Development estimated that as much as 50% of the population lived below the poverty level. After consultation with stakeholders in the private sector and other important civil society organizations, the government prepared its initial Poverty Eradication Action Plan in 1997. The plan which was revised in 2000 identified several poverty indicators which included widespread unemployment, income poverty and inequality, and limited access to land, education, health, water and sanitation facilities. The revised 2000 plan also included several defined goals which were further elaborated in the 2004/5 and 2007/8 plans which recognized the need to develop and promote resourced based industries with linkages in the industrial and business sectors (UNIDO, 2007, 7). Uganda's Poverty Eradication Action Plan emerged as one of the nation's main policy instruments that is aimed at transforming Uganda into a middle income country. The government planned to give priority to private sector industrialization so as to ensure that industry accounted for a greater share in the nation's GDP.

The government's plan was not to protect domestic industries and businesses so as to enhance competitiveness by strengthening the nation's infrastructure, improving the educational system and hence the educational levels of its workforce, improving the financial system and establishing a regulatory framework that ensured a level playing field for domestic and foreign businesses and industries (UNIDO, 2007, 8)

The Impact of Globalization and the Medium Term Competiveness Strategy(MTCS) for the Private Sector on Government and Business Relations in Uganda

Two other factors that have impacted Government and Business relations in Uganda that are worthy of discussion here are globalization and the 2000-2005/2005-2009 medium term competitiveness strategy for the private sector. From an economic perspective, globalization has fostered interdependence between production and markets in different parts of the world through flows of capital and technology and trade in goods and services.

One of the most important aspects of this trend has been the globalization of economic and business activities with particular attention to private sector driven development. It has become apparent that in an increasingly globalized world where emphasis has been placed on competitiveness, the role of the private sector as the driver of economic development, traditional approaches to policy development implementation and evaluation, in which the government played a pivotal role as the only stakeholder, are losing currency. Prior to the 1990s the view that industrial policy was geared solely towards the advancement of industry, especially when it embraced a framework with specified characteristics that had to be in place for industry to grow, has now been considered to have been reactive and bureaucratic (UNIDO, 2007, 11). As signs of discontent persisted in the 1990s, the government and private sector, which were critical stakeholders in the development agenda realized that individually they could not develop the private sector and by extension businesses. The fact the government was no longer solely responsible for formulating industrial policy and programs gave birth to strategic networks among stakeholders in Africa and Uganda where governments began to accept their roles as facilitators of effective governance and economic management practices and promoters of public and private sector consultative arrangements and partnerships. This new approach to business and industrial policy development and implementation, undergirded by the need for transparency and trust and the building of public and private partnerships, has enabled government and the private sector to jointly address issues of economic development in an effort to make credible policies that would enhance an enabling environment for a competitive and sustainable private sector (UNIDO 2007, 11). As a result of the development trends inherent in globalization, Uganda began to seriously think of increasing the competiveness of its industrial and private sectors towards the end of the 1990s, by prioritizing research and development, introducing new technologies and restructuring its industrial and private sector business practices.

Globalization transformed international trade and developing nations opened up their economies to such trade which had become important to every country's prosperity. While global economic activities have expanded, African countries, including Uganda, have failed to take advantage of the opportunities provided by globalization. They have not bridged the digital gap and their industries are faced with greater competition at home and in foreign markets. Capital mobility made possible by globalization means that government and businesses must compete for capital in the global market. Unfortunately, because of the complex and costly processes that such global transactions involve, it is unlikely that African countries are adequately equipped to compete for such resources. In essence, African nations do not only lack the capital resources but also the technological and advanced skills necessary to take advantage of globalization and become competitive across global markets (UNIDO 2007, 47). The end of the 1990s called the Government's attention to the fact that the private sector was going to play a vital role in the economic and industrial transformation of Uganda. To that end, several economic reforms were initiated to create an enabling environment for the private sector. These reforms included the effective implementation of the 1991 investment code, the privatization of public enterprises, the reduction of import tariffs, elimination of licensing requirements, lifting of import bans, elimination of export taxes, harmonization of tariffs within the East African Community and trade liberalization in general. While impressive strides were achieved following the implementation of the reform measures, a 1998 World Bank firm level survey indicated that the competitiveness of the Ugandan private sector was constrained by serious structural problems (UNIDO 2007,12)

It was against the backdrop of the issues discussed above that Uganda introduced the Medium Term Competitiveness Strategy (MTCS) in 2000-2005. Defined broadly, for the purpose of this study, as the development potential of a country or economy which is determined by its ability to foster competitiveness, generate, retain and attract economic activities that will ensure prosperity, the ultimate goal of MTCS was to improve the business environment so that the private sector could compete effectively and improve the economic performance of Uganda by increasing production and exports (UNIDO 2007, 13),The proposed enabling environment was one in which the private sector could increase its capacity to produce, create employment opportunities and generate profit in a free and competitive business framework capable of attracting domestic and foreign investments. The government was expected to facilitate the process by adopting and implementing appropriate policies, as well as legal and regulatory frameworks aimed at promoting and developing micro and small enterprises (UNIDO 2007, 13).The theme for the MTCS of 2000-2005 was " making institutions support private sector growth" with an emphasis on creating an enabling environment for private sector through various economic reforms, providing effective infrastructure and public entities, removing export impediments, improving access to capital and credit for micro and small enterprises.

It is clear from the preceding discussion that the lack of industrial finance and limited access to credit for small and medium enterprise development were major impediments to economic development. Given that one of the main objectives of the MTCS for 2000-2005 was to provide incentives for the diversification of financial products for small and medium enterprise development, the government implemented several initiatives within the Financial Institutions Act, the Micro Finance outreach plan and other financial regulations. As a result of the implementation of these measures, between 2001-2002, the banking sector increased at about 20.5%, representing a growth of about 419 billion Uganda Shillings. Private sector credit also increased from 512 billion Uganda Shillings in 2001 to approximately 661 billion Uganda Shillings in 2002 (UNIDO 2007,16). By most accounts, the MTCS 2000-2005 succeeded, to some extent, to create an enabling environment for private sector development. The country's macro-economic conditions increased impressively with an annual real GDP growth rate of 5% per annum. It was estimated that the GDP of the non-monetary sector declined from76% in 1990 to about 36% in 2001. The private sector's ability to general wealth and spur development was gradually being restored and there was renewed confidence, driven by government's commitment to private sector led development and its increasing ability to create an enabling environment for private sector development. Despite these achievements some constraints to industrial development notably weak infrastructure, lack of critical human resources, inadequacy of raw materials and high cost of energy still persisted ((UNIDO 2007, 15).

By contrast, the Medium Term Competitive Strategy of 2005-2009, focused on specific drivers of competitiveness especially those factors that had constrained Uganda's economic transformation. Such factors included infrastructure, knowledge resources, and the effectiveness of financial resources. Accordingly, attention was directed to the improvement of financial services for micro and small enterprises development, establishment of institutional frameworks for business regulation, investment and export promotion, infrastructure and utilities development and creation of an enabling environment for private sector development through macro-economic reforms and stability, better governance and economic management (UNIDO 2007, 16-17)

Profile of Uganda's Private Sector and Development of a Framework for Effective Government and Business Relations

A careful review of Uganda's current private sector environment is indispensable if meaningful strategies are to be devised to improve Government and Business relations and spur economic growth. Kalema (2009, 5), observes that the private sector in an African Less Developed Country (LDC), is highly diverse in terms of size, sophistication and linkages to regional and global businesses. In the case of Uganda, its private sector is dominated by small, informal enterprises. The Uganda Register of 2006/7, noted that there were about 25, 500 businesses in Uganda with fixed establishments. Only about 6, 000 of these firms were registered with the National Social Security Fund (NSSF) in 2007 and about 12,000 were active in submitting their VAT returns to the Uganda Revenue Authority (URA) at the end of 2007. Many of the largest firms, in terms of turnover and contribution to tax revenue were subsidiaries or associates of Multinational Corporations (MNC). In 2006/2007, 58% of the fifty largest tax paying companies in Uganda which contributed some 40% of all taxes collected were subsidiaries of MNCs. The top 50 taxpayers contributed 56% of the total taxes collected.

The Uganda Register also noted that employment averaged 12 persons for formal firms. The ownership status included sole proprietorship (50%), private limited company (24%), partnership (11%) and others including non - governmental organizations and religious owned companies(15%). About 90% of the registered businesses that provided information on ownership were Ugandan owned. The rest were owned by minority groups. The Register did not include the estimated 800,000 family owned establishments without fixed premises also categorized as informal establishments. These are small and unregistered firms that include home based workers and street vendors (Kalema 2009, 5-6). In terms of the operating environment for businesses in Sub-Saharan Africa investment climate surveys conducted by the World Bank, World Economic Forum and national research institutions indicate that the main challenges facing business and economic activities are limited access to finance, corruption, inadequate supply of infrastructure, high tax rates, an absence of technological innovations and an inefficient government bureaucracy (Kalema 2009,9).

As a result of the unfavorable business climate that exists in Uganda, as in many Sub-Saharan African nations, businesses in Uganda, regardless of their size or ownership, require government to provide a favorable investment climate that minimizes costs, policy related risks and barriers for enterprises. The investment climate should improve outcomes for society as a whole so that businesses using their skills and resources can pursue opportunities and promote economic growth.

In that regard, the desired investment climate should include predictability so that businesses can plan their activities in a stable environment devoid of sudden political and economic changes, fairness, clarity and effectiveness in the application of rules, attractive and growing markets, accessible and affordable finance, a low cost business environment, investment incentives, business development support, a viable and sustainable public-private sector partnership and direction, technological innovations and commitment from the government (Kalema 2009, 10).

In addition to what businesses required from the government, a number of on-governmental and civil society organizations were established to foster the government-private sector dialogue and lay the foundation for an enabling environment within which businesses would thrive and grow. These included the Uganda and the Millennium Challenge Corporation which was a partnership designed to fight public corruption by enhancing the ability of four key anti-corruption agencies to investigate, prosecute and adjudicate corruption cases quickly and successfully. This partnership also strengthened civil society organizations to use existing legal frameworks to better identify, monitor, expose and secure public redress against public corruption. Also established was the Businesses linkages program by Enterprise Uganda which sought to develop a new generation of dynamic Uganda entrepreneurs by actively providing support to small and medium scale enterprises (SMEs) to improve their productivity, growth and competitiveness. Enterprise Uganda accomplished this by structuring commercial business arrangements between successful global corporations and local SMEs through innovative and well organized business linkages. Created in 1992 as an initiative of the Uganda Manufacturer’s Association and the Presidential Economic Council, and sponsored by the World Bank and the United States Agency for International Development (USAID), the Uganda National Forum played a critical role in articulating and promoting business friendly policies that contributed to economic growth with equity. The National Forum enjoyed impressive success in its first five years and was instrumental in the establishment of the Private sector Foundation of Uganda (PSFU). Formed in 1995, the Private Sector Foundation was aimed at addressing the challenges of a fragmented private voice in dialogue with the government. By 2001, the foundation had brought together 81 business associations and 24 corporations to lead the private sector in on policy and business environment issues with the government. The foundation also developed a reputable track record for managing private sector related projects which were supported by development partners working closely with government through the Ministries of Finance and Trade, Energy and Health. Business licensing reforms were also initiated by the Entebbe Municipality in partnership with the Uganda Private Sector Foundation, to streamline the process of obtaining a business license and increase revenue to the local government from licensing through increased compliance levels and lower administrative costs. Streamlining the licensing process and reducing the number of required approvals and assessments reduced the cost of registering a business by up to 75% (Kalema 2009,16-22).

A Collaborative and Integrative Framework for Effective Government and Business Relations in Uganda

It is clear from the preceding discussion that in order to enhance more effective government and business relations in Uganda, the challenges that have been previously identified as inhibiting the creation of an enabling business environment will have to addressed successfully. This can be accomplished by establishing a collaborative and integrative framework that incorporates the lessons learned from the literature that has examined various aspects of the nature of this relationship thus far. Such a framework must be driven by the existence of a mechanism for measuring, what Dirk Willem te Velde (2010, 7), refers to as a measurement of the role of the private sector in State and Business relations (or Government and Business relations), based on the presence and length of existence of a central organization linking businesses and associations, a measurement of the role of the public sector in State and Business Relations based on the presence and length of existence of an investment promotion agency to promote business, assessment of the cooperation between the public and private sectors using several processes and procedures, independent of government, that can credibly establish the effectiveness of such collaboration, and evaluation of the existence and effectiveness of laws that protect business practices and transparent competition, devoid of collusive behavior.

In addition to these measures, a credible framework for enhancing effective Government and Business relations must include demonstrated political support and commitment at the highest levels of government, especially in the early stages of policy dialogue, so as to ensure follow up action on agreements reached by government and businesses, formalization or institutionalization of the public-private sector dialogue by enacting legislation that requires consultation as part of the policy making process, establishing the capacity and readiness for a robust public-private sector dialogue that requires both sides to be engaged in meaningful dialogue, involving investors from minority groups(such as private foreign investors and ethnic minority groups) in policy dialogue and ensuring that government provides the requisite direction and commitment for successful public-private sector dialogue.

This is vital because businesses perform well when government implements a clear development strategy shaped by a well defined vision for the country's economic future, provides leadership for its attainment, and demonstrates its commitment through consistent investment in the necessary infrastructure, institutions, skills and capabilities(Kalema 2007, 22-24). Finally, a framework for effective government and business relations must afford businesses the opportunity to contribute to the development of productive sectors of the economy. In that regard, government must promote private sector governance by ensuring that the same attention and commitment that are given to establishing effective public sector institutions must also be given to developing effective internal management and operational structures in the private sector. Government must also include corporate governance principles in legislation, create awareness of policies, laws and regulations through information dissemination and consultation, encourage Small and Medium Enterprises (SMEs) to operate professionally and transparently, ensure that government and business associations work together to incorporate the principles of corporate governance in firm operations and provide a conducive environment for informal enterprises to operate(Kalema 2007, 25-27). Ultimately, the collaborative and integrative framework being proposed as a means of enhancing government and business relations in Uganda, is one which must strive to bring all stakeholders together(public sector, private sector and non –governmental and civil society organizations) in a formalized process that is conducive for effective dialogue among all concerned. Representatives of these three groups must identify the challenges that have prohibited the creation of an enabling environment for dialogue, establish mechanisms that would allow them to work collaboratively and transparently and integrate key policy decisions aimed at promoting effective relations between government, business and civil society organizations into a credible framework that would promote businesses and advance economic growth.

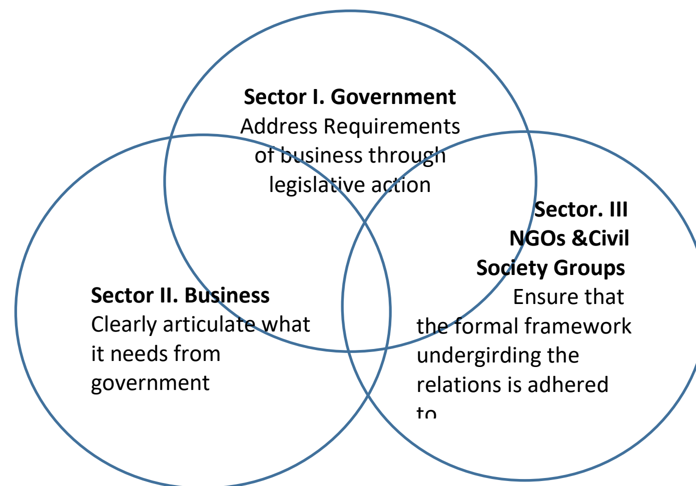

Figure 1.1 Collaborative and Integrative Framework for Effective Public – Private Sector dialogue to Support and enhance business promotion and economic development (Author's own Conceptualization)

Government should address the requests of business through legislative action or other institutionalized mechanism that provides an enabling environment for supporting and enhancing business development (sector I).

Business (or the private sector) should clearly articulate what it needs from government (sector II) and Non-governmental organizations and civil society entities (which should serve as the ombudsman) should strive for the creation of a legal mechanism for ensuring that the formal framework undergirding the partnership between government and business is enforced, and where necessary, identify instances of violations for prosecution (sector III)

Summary and Concluding Remarks

This paper has attempted to examine the nature of government and business relations (also known as State and business relations), in Uganda The central argument guiding the analyses and discussions presented here is that a collaborative and integrative arrangement that brings together government, business, non -governmental or civil society organizations to formulate and implement industrial policy would foster the creation of an enabling environment for business promotion and economic growth. To sustain this argument, this paper briefly reviews contemporary perspectives on government and business relations, the historical perspective of government and business relations in Africa and Uganda, and offers a conceptual framework for assessing the nature of this relationship. An attempt is also made to explore the evolution of government, industrial and business policy in Uganda, the economic recovery program and attempts at improving government and private sector business in Uganda and the impact of globalization and the Medium Competitiveness Strategy for the Private Sector on government and business relations in Uganda. The paper then reviews a profile of Uganda's private sector and proposes the development of an interactive and integrative framework for effective government and business relations in Uganda.

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