

## **CICS Policy Brief 06/05: Infrastructure Development Key to Competitiveness**

A well-developed transport infrastructure network is a core requirement for competitiveness. Transport infrastructure is central to Uganda's competitiveness as it facilitates productivity through support of industrial activities by linking Uganda to diverse external markets and, supporting the growth of organised industrial parks favored by long-established manufacturers and budding exporters. However, transportation costs account for about 39% of the total cost of production, which has a significant impact on the final price of commodities and the competitiveness of the local products.

The following are some of the major areas for consideration in the short term to cut growing business costs for the private sector in relation to infrastructure development.

### **1. Road Transport**

The reconstruction process of the Jinja Bugiri highway nears completion after a long and slow process that disrupted transport along this highway to Mombasa. The impasse surrounding the completion of the Northern By pass needs to be resolved soon to reduce on the increased commercial traffic in the city centre that has worsened the state of roads in Kampala. Key feeder/trunk roads that link farmers to better markets need to be urgently rehabilitated.

### **2. Rail Transport Infrastructure.**

The absence of enough rail wagons to facilitate Uganda's trade movements along the Northern corridor is a serious hindrance to competitiveness... In addition, the high freight charges are a hindrance to doing business. The freight charges of RVR were increased in June 2008 by 14.8 percent as a result of the increase in global oil prices. The new charges are \$ 1612 for a light 20ft container, \$ 2418 for a heavy 20 ft container and \$ 2992 for a 40 ft container

There have been concerns about the poor performance of RVR by the private sector. The company has breached several important provisions of the concession agreement including those pertaining to the payment of concession fees and the maintenance of conceded assets. The quality of the service has been perceived by the business community as worse than before the concession. It is claimed to be delivering only 50,000 tones per month instead of 200,000 tones to meet the private sector needs.

A new turn around strategy was presented by the shareholders of RVR after crisis meetings with the governments of Kenya and Uganda in July 2008. RVR has agreed to introduce new management and inject new capital to improve its performance. Rift Valley Railways plans to inject \$116m (192 bn) in rehabilitating and upgrading the Kampala Mombasa Railway line. This is a part of a five year revitalization plan that will see the concessionaire inject \$80.2m in capital investment and \$ 35.5m in operational expenditure. This is all part of RVR's turn around strategy which included changes in management.

### **3. Alternative transit route for Uganda's Import and export goods.**

The need for of an alternative transit route for Uganda's imports and exports was greatly exposed during Kenya's post election crisis. The Rail/Water route from Dar es salaam-Mwanza-PortBell-Kampala has been earmarked as a cost effective alternative route to the Mombasa route. However use of this route is still limited by the lack of functional water transport vessels and a sufficient rail network to Mwanza. There is the need to expedite the repairs of MV Pamba and MV Kaawa as well as encourage private investment in Ferrys/Barges, handling and storage services at the ports of Mwanza and Port Bell for purposes of better efficiency.

### **4. Regional Barriers that affect Transport.**

Uganda's transporters face stiff competition from neighboring transport companies in Kenya owing to Kenya's transit laws restricting Uganda's licensed transit trucks from transporting exports into Kenya for fear of dumping. Uganda's transporters pay 25% import duty on trucks while their counterparts in Tanzania and Kenya pay no tax against imported trucks. This is because Kenya and Tanzania classify these trucks as "equipment" under the Common Export Tariff (CET) thus is zero rated. As a result, over 70%<sup>1</sup> of Ugandan goods are transported by Kenyan companies.

There is therefore need to resolve the above issues between the East African countries to reduce on the costs of transport for Uganda's private sector.

The Government of Uganda's competitiveness agenda is therefore geared at ensuring that the various key obstacles to infrastructure development are tackled to support the growth of Uganda's private sector.

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<sup>1</sup> PSFU Platform for Action 2008