S6 ECONOMICS

PUBLIC SECTOR:

This is a sector that is comprised of organisations that are owned and operated by the government and exist to provide services for the citizens.

Organisations in the public sector do not mainly seek to generate profits.

FORMS OF BUSINESS ORGANISATIONS IN THE PUBLIC SECTOR:

PUBLIC/STATE ENTERPRISES:

A public Enterprise is a business organisation which is **set up**, **owned** and **controlled** by the Government.

OR: a government owned business set up by an **Act of Parliament**/**Government decree** to carry out specific activities.

The State/ Government contribute capital and control the enterprises. Many of the state enterprises aim at improving the welfare of the people without putting much emphasis on profit making.

PUBLIC CORPORATIONS:

A public corporation is a business **organisation**/enterprise in which government holds either all the shares or majority of its share capital.

It is created by an Act of Parliament which clearly defines its aims and objectives e.g. National Water and sewerage corporation.

PARASTATAL ORGANISATIONS:

A Parastatal organisation is a state-owned enterprise/firm set up by the **Act of Parliament/**Government **decree** to carry out specific functions/activities without putting much emphasis on profits.

Parastatal bodies or organisations take forms of marketing, financial and service such as marketing boards, National Insurance Corporation, cooperative banks, water and power, transport services etc.

REASONS WHY PUBLIC ENTERPRISE ARE ESTABLISHED:

- To provide goods and services which have low commercial profitability but have high socio-economic benefits. These aim at providing unprofitable but essential goods which the private investors cannot provide.
- To avoid duplication of resources. This is because establishment of public enterprises eliminates unnecessary competition that is usually associated with private enterprises and this helps to eliminate resource wastage.

- To create more employment opportunities. This is achieved by taking the public enterprises to different areas of the country so as to evenly distribute employment opportunities and curb the unemployment problem.
- To produce goods of strategic importance- a case of fire arms produced by government corporation; National Enterprise Corporation (NEC) at Nakasongola (Uganda).
- To provide essentials of life at fair prices e.g. supply of piped and metered water at subsidized prices by the National Water and Sewerage Corporation.
- To promote investment in the country e.g. there is Uganda Investment Authority which co-ordinates investment activities in Uganda.
- To promote economic independence i.e. they provide goods and services which would have been imported and this promotes self-reliance in the country.
- To run enterprises which require heavy capital investment and may not be raised by private investors because they are very expensive to set up
- To mobilize savings e.g. a case of National Social Security Fund (NSSF) which mobilizes, manages and keeps compulsory savings of non-pensionable workers in Uganda.
- To complement the private sector so as to avoid emergency of Private Monopoly firms and their associated evils such as overcharging consumers, production of poor-quality products etc.
- To prevent consumers from exploitation by private enterprises e.g. Existence of National Bureau of Standards, National Drug Authority etc. to ensure that the products consumed by the public conform to the set minimum quality standards.
- To stabilise prices and incomes. This is a case of Bank of Uganda which uses tools of the monetary policy to stabilize prices in the country.
- To ensure proper planning of a country. This is because public enterprises are directly under the government and this makes it easy for the government to plan and control.
- To raise revenue through getting involved in different economic activities
- To promote resource utilization. This is achieved by establishing public enterprises in areas where there are unexploited resources and this leads to effective utilisation of the would-be idle resources.

CONTRIBUTIONS OF PUBLIC ENERPRISES TO THE DEVELOPMENT AN ECONOMY:

- They provide goods and services which have low commercial profitability but having high socio-economic benefits.
- They create employment opportunities.
- They promote investments.
- They ensure social security.

- They avoid duplication and wastage of resources.
- They promote economic independence/self-reliance/reduce dependence.
- They mobilise savings.
- They protect nationals from exploitation by private firms.
- They complement the private sector hence avoid monopoly.
- They protect primary producers from exploitation.
- They raise revenue for the government.
- They produce goods of strategic importance.
- They invest in areas where the private firms do not have enough capital for ventures/undertake ventures that require heavy capital that private firms cannot easily raise.
- They promote infrastructural development.
- They promote development of skills.
- They facilitate economic growth.
- They promote equity in the distribution of income and wealth.
- They promote balanced regional development.
- They increase resource utilization.

DISADVANTAGES OF PUBLIC ENTERPRISES
(DEMERITS OF PUBLIC SECTOR ENTERPRISES)

- **Strain the government budget.** The government spends much money to finance the activities of public enterprises. This causes a significant increase in the government expenditure hence causing a budget deficit.
- **Produce poor quality goods and services**. This is due to absence/lack of competition from private enterprises which make to be reluctant at improving quality of their goods or services.
- **Decision making is slow.** The long chain of decision makers causes unnecessary delays in the implementing policies and it causes inefficiency.
- **Lead to high levels of corruption/ poor accountability by public officials**. This is due to poor supervision of government officials; this gives them ample time to misuse public funds.
- **Limit consumer choice.** This is because of limited variety of goods and services produced by public enterprises,

- **Lead to shortages during times of breakdown**. This is because it a sole provider of a service for example national water and sewerage corporation.
- **Kill private imitative.** This is because some state enterprises dominate the entire market which does not allow private individuals to set up similar businesses.

Problems faced by the public sector in Uganda:

- **Low level of accountability/ corruption.** The managers of these enterprises misuse the enterprise funds and put them to their personal use leaving the enterprises with very little funds for effective running of their activities.
- **Existence of bureaucracy and red tape**. This leads to delays decision making and the implementation of the programs within the enterprise.
- **Inadequate capital**. These enterprises are given little money by the government which delays implementation of programmes and some are not implemented.
- **Political interference**. This is through appointing managers who may not have the ability but because they belong to the right political affiliations and they end up mismanaging these enterprises.
- **Poor management/limited skilled manpower.** This leads to low labour efficiency and provision poor quality services.
- **Political instability.** This disrupts activities of public enterprises which come to a halt since employees fear to lose their lives.
- **Stiff competition from the private sector**. The private sector enterprises produce better products and such products outcompete those of public enterprises, this limits the market for the products of public enterprises and this makes it hard for them to expand.

- **Foreign interference.** Those agencies such as the International Monetary Fund (IMF) that wants these enterprises to be privatised and the government to limit funding of such enterprises

- **Poor infrastructures/underdeveloped infrastructure**. The infrastructure in form of roads, railways is poorly developed making it hard to transport raw materials to the enterprises and also marketing products is not easy.

- **Limited market size**. This limits the earnings of the enterprises and hampers their expansion

- **Limited supply of raw materials**. The scarce raw materials become expensive to acquire which increases the cost of production.

- **Poor techniques of production**. This leads to inefficiency in production hence low productivity in such firms.

- **Limited commitment and interest on part of the managers.** The managers do not give ample time to the enterprises which leads to poor supervision of the workers, limits innovations and thus inefficiency of such firms.

- **Poor land tenure system**. This makes it hard to access land and it makes expensive to acquire the land to set such enterprises.

- **High rate of inflation/ price instabilities.** This leads to high cost of production and this discourages production in the public sector.

PRIVATISATION OF ENTERPRISES:

Privatisation is the transfer of ownership of a state enterprise/public sector firm/ public owned firm to individuals/ private sector/ private investors.

FORMS OF PRIVATISATION IN UGANDA:

- **Complete privatisation/ Divestiture**. This is the complete transfer or sale of all shares in a state enterprise to private individuals or firms.

- **Partial Privatisation/sale**. This involves selling a portion of government ownership in a given business. It is common with businesses that have diversified activities such that a line of activity is retained by the state while the other is relinquished (surrendered) to the private sector.

- **Joint Venture**. Here, the government runs an enterprise with a private entrepreneur. The state or government holds at most 49% shares in the joint venture and at least 51% shareholding belonging to private individuals.

- **Leasing of state enterprises to private investors/ mortgaging/ sales and lease back privatisation**. This is the temporary sale of public of a enterprise to the private sector with the aim of repossession by the state.

- **Privatisation by Management/ Concessioning/ Contract**. This is a form of privatisation that involves selling of business management to private entrepreneurs for a specific period of time as per agreement after which control of the business may be returned to government when deemed necessary. E.g. the Uganda railways corporation has been consessioned to Rift Valley Railways Ltd.

- **Repossession / Denationalisation**. This is where ownership of the formerly nationalized enterprise is transferred back to the original owners e.g. returning of the property of the Asians that were nationalized by Amin in 1972

REASONS FOR PRIVATISATION OF PUBLIC/ STATE ENTEPRISES

- To enable firms to operate more efficiently in the hands of private investors since private investors are profit oriented.
- To reduce corruption tendencies this is rampant in state enterprises. This is possible because private investors are keen and strict on financial management.
- To attract foreign investment. Privatisation gives confidence to private investors that their investments are safe and cannot be nationalized.
- To reduce government expenditure on subsidization/ running the enterprises. After privatizing the government stops subsidizing the enterprises.
- To meet IMF conditionality of creating a private sector led economy. Since IMF puts it as a condition to extend assistance to developing countries.
- To create more employment opportunities in the long run because when state enterprises are privatized, they are better managed which expands production and hence absorb more labourers.
- To encourage competition hence improve the quality of output. After privatisation, many firms in the private sector compete among themselves which leads to production of better-quality output.
- To expand tax base.   Enterprises are taxed they are in the hands of the private investors.
- To improve/increase the level of resource utilization because the privatized enterprises become more efficient and therefore use more resources.
- To reduce bureaucratic tendencies and resultant negative effects such as delay in decision making because there is not much consultations to be made in the private enterprise before the decision is made.
- To encourage creativity/innovation because private investors are profit motivated and therefore carry out innovations for better methods of production.
- To allow government to concentrate on provision of social services, instead of spending money on inefficient enterprises.
- To improve on the BOP position (by reducing imports and increasing exports). This is because privatisation increases domestic production of goods and services which reduces the volume of imports and also increases volume of exports.
- To control structural inflation because the privatized enterprises increases the supply of goods and services due to better management and improved technology.

- To increase output hence economic growth/to accelerate the rate of economic growth because privatisation increases the production of goods and services since private enterprises are better managed in the hands of private investors.

- To make the enterprises earn more profits as a result of improved efficiency.

ADVANTAGES OF PRIVATISATION OF STATE PUBLIC ENTERPRISES

- It enables the firms to operate efficiently since the private investors are profit motivated.

- It reduces corruption because private investors are keen and strict on financial management.

- It controls government expenditure on subsidizes because after privatisation government stops subsidizing the enterprises.

- It improves quality of output this is because it leads to competition among the producers.

- It leads to creation of more employment opportunities in the long run because when state enterprises are privatized they are better managed which leads to expansion and creation of more employment opportunities.

- Leads to increased inventions and innovations. This is because private investors are profit motivated therefore carry out innovations for better methods of production.

- Leads to increased government revenue through taxes. This is because the enterprises are now taxed since they are in the hands of private investors.

- Leads to improved resource utilization. This is because the privatized enterprises become more efficient and therefore use more resources.

- It reduces bureaucratic tendencies which delays decision making because there is no much consultations to be made in the private enterprises before a decision is made.

- It reduces/controls structural inflation because the private enterprises increase the supply of goods and services due to better management and improved technology.

- Improves on the balance of payment position because privatisation increases domestic production of goods and services which reduces the volume of imports.

- Enables government to concentrate on provision of social services, privatisation allows the government to concentrate on the provision of essential services instead of spending money on inefficient enterprises.

- Increases output hence accelerate economic growth rates. This is because privatisation increases the production of goods and services since private enterprises are better managed in the hands of private investors.

- Improves international relations between Uganda and the donors. This enables such countries to continue receiving foreign assistance after fulfilling the IMF conditionality.

- It attracts foreign investment and capital because privatisation gives confidence to the foreign investors that their investments will not be nationalized.

- Widens consumer choice due to variety of goods produced by the private firms.

- Reduces dependence on imports. This is due to increased local production.

- Improves skills of workers, this is because workers gain skills while working in the different private sector firms.

DISADVANTAGES OF PRIVATISATION:

- It worsens income inequalities. This is because private investors make a lot of money than those who do not own firms and therefore the gap between the rich and the poor widens.

- Exposes consumers to exploitation. This is through over charging them for the goods and services since they are interested in making abnormal profits.

- Worsens unemployment problem due to layoffs, it creates unemployment in the short run because the private investors lay off workers immediately after taking over ownership.

- Increases profit repatriation by foreign buyers. This is because most of these enterprises are bought by the foreigners who take the profits made back to their countries.

- Promotes wasteful competition among private producers. This is due duplication of products and excessive persuasive advertisements.

- Increases foreign influence in the economy. Privatisation leads to economic dominance by foreigners since local people cannot afford to purchase the floated public enterprises.

- Exposes labour to exploitation, this is because after privatisation, the new private investors under pay the workers so as to minimize costs of production and maximise profits.

- Leads to losses due to poor valuation, unscrupulous buyers and the high cost of the process.

- Reduces government ability to equitably distribute development projects. This is because after privatisation government loses control over the distribution of projects. The private investors locate projects only in areas where they feel it is economical for them.

- Leads to resentment from people who feel their assets were sold to foreigners.

PROBLEMS ENCOUNTERED IN TH EPRIVATISATION PROCESS IN UGANDA:

- **Corruption in the privatisation unit.** There is lack of transparency in the sale of some of the public enterprises, because some government officials ask for bribes from potential buyers, some abandon the desire to buy.

- **Opposition from the public.** A number of stakeholders fear that privatisation leads to loss of economic control to foreigners, this discourages the potentials buyers.

- **Poor valuation of public enterprises that are on sale**. Some enterprises have been undervalued which leads to loss to the government.

- **Poor state of some of the public enterprises.** Some state enterprises are in a dilapidated/ sorry state, making it hard to sell them.

- **Lack of well-developed capital and money markets** This has hindered the process through floating these shares to the public.

- **Political sabotage**. This is mainly by opposition politicians who have discouraged the potential buyers or decampaigned the process or blocking bills in parliament aimed at privatisation.

- **Poverty among nationals** and therefore very few Ugandans have the ability to buy these enterprises. This has compelled the government to painfully sell these state enterprises to foreigners.

- **High cost of the process**. The government spends a lot of money on advertising the enterprises due for sell in order to get buyers and some need to be rehabilitated before they are sold.

- **Presence of unscrupulous/ dishonest buyers**. These are non-credible buyers who buy these enterprises without the intention of developing them but only to make quick gains and disappear.

- **Small market for goods and services**. There is small domestic market due to low purchasing power which discourages potential buyers due to low profits.

- **Political instability**. Some enterprises are in politically unstable areas hence scaring away potential buyers for fear of loss of lives and property.

- **Ideological differences**. There are conflicting objectives the policy makers where some are inclined to a government led economy while others a private led economy, this has led to delay in decision making concerning the sale of such enterprises.

STRUCTURAL ADJUSTMENT PROGRAMME (SAPs):

This refers to a set of economic policies often introduced as a condition of giving a loan from International Monetary Policy (IMF)

OR: Structural adjustment is the name given to a set of 'free market' economic policy reforms imposed on developing countries by Bretton Woods's institutions (the World Bank and IMF) as a condition for receipt of loans.

SAPs are designed to improve a country's foreign investment climate by eliminating by eliminating trade and investment regulations, to boost foreign exchange earnings by boosting exports, and to reduce deficits through cuts in spending.

To be eligible for a loan from IMF and World Bank Developing countries often have to implement some or all of the following policies.

- Cutting government spending to reduce the budget deficit.
- Raising tax revenue and trying improve tax collection by clamping down on tax on tax avoidance
- Control of inflation through monetary and fiscal policies
- Privatisation of government of state enterprises, intended to improve efficiency and productivity in those enterprises.
- De-regulation of markets of markets to encourage competition and allow more firms to enter the industry
- A currency devaluation measure which increases import costs while reducing the value of domestically produced goods.
- Liberalisation of trade and investment to attract foreign investors

SAPs OF IMF THAT HAVE BEEN IMPLEMENTED IN UGANDA:

- Privatisation/expanding the role of the private sector
- Liberalisation of trade and foreign exchange
- Restructuring of the public service/demobilsation of workers/soldiers
- Devaluation of the currency
- Tightening monetary and fiscal policies
- Reduction of government expenditure on non- essential services
- Restructuring of tax administration

THE CONCEPT OF ECONOMIC LIBERALISATION:

Liberalisation refers to the removal of **unnecessary** controls/restrictions on economic activities so as to give people / private investors' liberty to do business without undue government interference.

Forms of Economic liberalisation

a) Trade liberalisation

This refers to the removal of unnecessary controls on trade hence giving people the liberty/freedom to trade without undue government controls/interference/restriction.

In Uganda, trade liberalization is manifested in the following:
- Liberalization of the export sector
- Liberalization of the foreign exchange markets
- Liberalization of the telecommunications sector
- Liberalization of university education/ tertiary education

Reasons for liberalisation of Uganda's economy

- To create more employment opportunities this is because liberalisation leads to increased economic activities
- To increase the rate of economic growth as a result of increased output due to many economic activities.
- To encourage resource utilization as a result of increased economic activities that demand for more resources to increase output.
- To achieve technological development through. This is due increased innovations and inventions by the private investors in order to increase efficiency and therefore be able to earn more profits.
- To improve the quality of the goods due to intensive competition among the private firms that arises as a result of liberalisation
- To increase government revenue by taxing the private firms.
- To fight corruptions because private investors tend to be very keen on financial management and easily trap the corrupt workers.
- To control structural inflation as a result of increased production of goods and services by the private investors this helps to reduce shortage of goods and services in the market.

- To improve the balance of payment position because of increased production at home which reduces the volume of imports and at the same time there is increased exportation of goods which increases foreign exchange earnings.

- To reduce income and wealth inequalities because liberalisation of the economy enables very many people to engage in economic activities from which they earn income.

Merits of economic liberalisation

- It creates more job opportunities due to increased economic activities.
- Increases the rate of economic growth as a result of increased output due to many economic activities.
- It encourages resource exploitation as a result of increased economic activities that demand for more resources to increase output.
- Results into technological development
- It leads to efficiency of firms due to a lot of competition in order to remain in business.
- It leads to production of better-quality goods due to intensive competition among the firms.
- It increases government revenue through taxation
- Fights corruption
- Controls structural inflation as a result of increased production of goods and services which reduces shortages in the market.
- Improves the Balance of payment position. because of increased production at home which reduces the volume of imports and at the same time there is increased exportation which increases foreign exchange earnings.
- Reduces income and wealth inequalities because many people engage in economic activities from which they earn income.
- It increases the inflow of capital through foreign investors who come with their capital to do business in order make profits.
- It promotes infrastructural development because the government takes up its self to develop infrastructure such as building roads, power facilities etc in order to promote private investment.
- It promotes economic diversification because liberalisation of trade leads to engagement in a number of economic activities by the private investors.
- It improves relations with other countries especially donors which enables the country to get assistance/resources from such donor countries.
- It helps to develop labour skills; this is because many people acquire skills in different economic activities in which they are engaged.

Disadvantages of liberalisation of the economy

- It leads to price fluctuations because there is no central body to control prices and as a result, prices are determined by the free interplay of the market forces of demand and supply therefore they keep changing.
- Some firms especially the local ones are out competed due to stiff competition by the foreign firms.
- It leads to unemployment as a result of employing capital intensive where less labour is employed as some people losing jobs when some firms are out competed from business.
- It leads to misallocation of resources. This happens when the private investors commit resources to the production of luxury goods which are profitable and ignore essential goods which are less profitable.
- It encourages duplication hence wastage of resources. This is because there are many producers providing the same goods and services
- It promotes consumer exploitation due to ignorance which results into overcharging of the consumers.
- It leads to the rise of monopoly power and it associated evils. This is because of the stiff competition which pushes out some firms out of business and this leaves some firms alone in production and therefore over charging consumers, provision of poor-quality goods because now there are no competitors.
- It exposes consumers to harmful products due to limited government involvement in business which allows private investors to produce goods of their choice i.e. production of alcoholic drinks and cigarettes which are harmful to human health.
- It leads to income and wealth inequalities because resources owners earn a lot from the increased output while those with little resources earn very little incomes.
- It leads to environmental degradation as a result of pollution and poor waste disposal.
- Leads to foreign economic dominancy because some investment is undertaken by foreign investors since the majority of the nationals are poor and therefore do not have the capacity to engage in business.
- Leads to depletion of some resources due to over exploitation which result from increased demand for raw materials by private sector firms that emerge as result of economic libelisation
- Flooding of markets may sometimes force prices to go very low to uneconomic levels.

THE PRIVATE SECTOR

This is a section of an economy where production decisions are made by private individuals guided by the market forces and supply.

Note: A Private enterprise is a business unit owned and controlled by private individuals.

FEATURES OF THE PRIVATE SECTOR IN UGANDA:

- Most private enterprises operate on a small scale
- Most of them are profit motivated.
- Mostly use poor technology or labour intensive technology.
- Mainly produce consumer goods.
- The private sector is dominated by indigenous / nationals
- Mainly employs semi- skilled and unskilled workers.
- Mainly uses local resources to produce goods and services.
- Mainly produces for the domestic market.

ROLE OF THE PRIVATE SECTOR IN THE DEVELOPMENT OF THE ECONOMY (UGANDA)

- It contributes revenue to the government. This is through the taxes imposed on the activities of the private sector.
- Provides employment opportunities. This is through the various activities of the private sector.
- Promotes development labour skills. The private sector acts as a training to labour in the different activities in which participate.
- It promotes industrialization in the economy. This is because many industries are set up by the private investors to produce goods and services.
- It promotes production of quality of the products. This is as a result of competition and use of better methods of production among the many private sector firms.
- It promotes technological improvement/development. This is through innovations and inventions carried out by producers of the private sector.
- It promotes resource utilisation. This is because more resources are put to use by the private sector firms as they struggle to increase output to earn more profits.

- It provides a wide variety of goods and services. This is because the producers are very many and produce different commodities. This widens consumer choice.

- It improves entrepreneurial skills. This is because the entrepreneurs in the private sector become better with time as they run their businesses.

- Promotes infrastructural development. The government is compelled to improve infrastructures so as to facilitate the activities of the private sector.

- It promotes commercilisation of the economy. This is because the producers in the private sector produce goods for the market so as to earn profits.

- It accelerates the rate of economic growth. This is because of the increased volume of goods and services produced by the several firms in the private sector.

DEMERITS OF THE PRIVATE SECTOR IN UGANDA:

- It encourages the development monopoly and its associated evils this is because some inefficient firms are kicked out of business the few that remain gain monopoly status which production of poor-quality goods and overexploitation of consumers due to lack of competition.

- It leads to profit repatriation. This is because there many foreign investors, who repatriate the profits earned back to their countries.

- It leads to consumer exploitation. This is because private investors overcharge consumers in an attempt to maximise profits.

- It leads to the production of demerit goods. This is because such goods attract high profits and since producers in the private sector are interested in maximising profits, they produce more of such goods.

- It ignores the production of essential goods. This is because they are less profitable, but rather produce luxuries which are more profitable.

- It makes the government planning difficult. This is because the government does not directly control the activities of the private sector.

- It leads to quick depletion of resources. This is because they tend to overexploit the available resources so as to produce more goods and services in order to make more profits.

- It leads to income inequality. In a private sector, incomes tend to concentrate in the hands of a few individuals who have access to more resources which they use to produce more goods and services and thus earn more income as compared to those with fewer resources.

FACTORS THAT AFFECT THE PERFORMANCE OF THE PRIVATE SECTOR IN UGANDA

- The market size
- The state of technology
- Availability of investment incentives
- Level of entrepreneurial skills/ability
- Availability of capital
- State of infrastructure
- Availability of skilled labour
- Political climate
- The rate of inflation
- Level of accountability
- The land tenure system
- Natural factors
- Availability of raw materials
- Availability of patent/copy right laws

PROBLEMS FACED BY THE PRIVATE SECTOR IN UGANDA

- **Limited/small market size**. This limits the expansion of the enterprises in the private sector since the investors fear to remain with unsold output which would lead to losses.

- **Low levels of technology.** This limits efficiency and productivity which increases the cost of production thus lowering the profit levels and hence discouraging investors from expanding the production levels.

- **Limited investment incentives/unfavourable government policies on investment such as high taxation**. This leads to high cost of production which reduces the profits earned the investors thus discouraging them to expand production.

- **Limited entrepreneurial skills.** This limits the number of businesses being initiated and sustained because there are few people who are ready to take risks.

- **Limited/Inadequate capital**. This makes the expansion of the private sector difficult because the investors find it hard to raise enough capital to buy inputs such as raw materials and hire the required skilled labour.

- **Poor infrastructure**. This limits transportation of the products to the markets and the raw materials to the production units. It also increases the cost of production thus limiting the profits earned by the investors which discourages to expand the production units.

- **Limited skilled manpower.** This leads to low labour productivity and efficiency hence low output.

- **Political instability/insecurity in some parts of the country.** This scares people to carry investment in the private sector since they fear to lose their lives and property.

- **High rate of inflation**. This increases the cost of production which reduces the profit margin thus discouraging investment the private sector.

- **Corruption/Low levels of accountability**. The government officials ask for bribes from the potential investor to give the licenses to operate, this frustrates many of them who abandon their dream of carrying out investment.

- **Poor land tenure system.** This limits accessibility to land by the potential investors, thus leading to low levels of investment in the private sector.

- **Unfavourable natural factors.** This discourages investment in the agricultural sector due high level of risks and uncertainties in the sector, such prolonged drought leading losses.

- **Ineffective enforcement of patent/copyrights. This** discourages inventions and innovation because they don't benefit from their due to increased piracy.

- **Shortage of raw materials.** The investors are forced to import the necessary inputs which increases production costs, thereby discouraging production levels due to low profits earned

POLICIES THAT HAVE BEEN ADOPTED TO PROMOTE THE PRIVATE SECTOR IN UGANDA:

- **Undertaken privatisation of the public enterprises**. This has encouraged private investors because it has given them confidence that the government will not nationalise their enterprises.

- **Ensured political stability**. This has encouraged private investors to set up economic projects because there is assured security for life and property.

- **Undertaken liberalisation of the economy**. The unnecessary rigid regulations which limit private sector activities have been removed by the government. Private investors have been given the liberty to carry out trade and this has expanded the private sector in Uganda. E.gs are: liberalization of coffee export, Liberalization of university education, liberalization of foreign exchange market e.t.c

- **Encouraged the financial sector to extend affordable credit/loans to the private sector.** This has enabled private investors to get loans which they use to finance activities in their business enterprises. This has led to expansion of private sector.

- **Ensured expansion of market both local and foreign**. This has encouraged investors to produce more goods since there is ready market for them and these producers do not fear to make losses by remaining with unsold output.

- **Controlled inflation**. This has led to low cost of production which has attracted many people start and expand businesses due to the high profits enjoyed.

- **Provided investment incentives to private investors**. These include tax holidays, subsidies. Such incentives have reduced the costs of production incurred by the private investors hence encouraging them to increase their scale of production due to the increased profit margins.

- **Organised trade fairs.** This has enabled the private investors to publicise their products both to the domestic and foreign market which has enabled them to increase sales and thus encouraging them to increase production levels.

- . **Improved infrastructure**. Better infrastructure in form of roads is enabled the private investors to transport raw materials to production units and the finished goods to the market.

- **Reformed the land tenure system**. This has improved accessibility to land which has encouraged expansion of private enterprises since investors have easily acquired land for expansion of their enterprises.

NATIONALISATION: This refers to where the state takes over a formerly privately-owned enterprise to be run in public interest. The state owns controls and manages the enterprise.

MERITS OF NATIONALISATION

- Adjustment to changing conditions may be quick.
- Helps in provision of essential goods and services at cheaper price.
- Helps in reduction of social costs e.g. pollution, depletion of resources
- Eases mobilization of large amounts of capital.
- Helps in indegenisation of the economy / reduces foreign dominance.
- Ensures government control of strategic sectors of the economy.
- It ensures increased employment opportunities.

DISADVANTAGES OF NATIONALISATION OF FIRMS

- It creates state monopolies which are inefficient
- Corruption and embezzlement becomes rampant.
- Discourages foreign investors

- Increases government expenditure in form of subsidies to the nationalized firms
- Leads to loss of government popularity.