

INDUSTRY POLICY

UGANDA

PRESENTER: NAAMALA PROSSY

Master of Public Policy

GRIPS

July 13, 2018

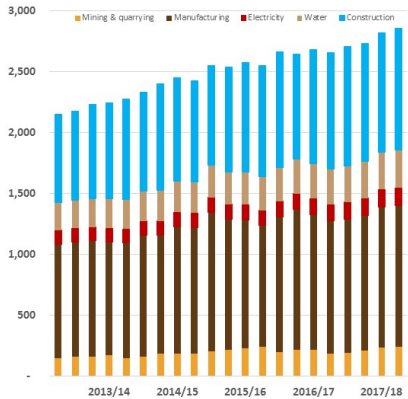
Economy



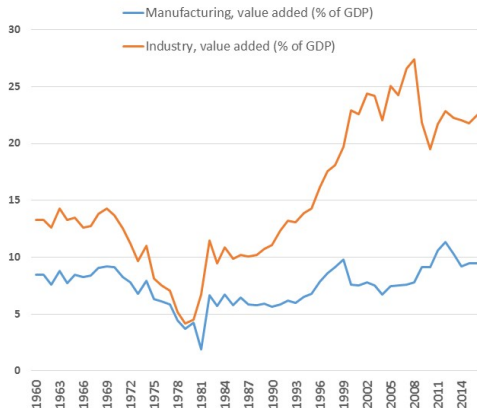
- GDP at Current Prices- USD 24.07B
- GDP growth (annual%)- 4.56%
- Industry, value added (% of GDP)-22.48%
- Manufacturing, value added (% of GDP)-9.49%
- Current rating 3.7
- Composition: Micro, small and medium industries-93.5% of the sector.
- Major actors: Private sector, government, research institutions and Universities.
- Involves in end-product assembly and raw materials processing, producing low value added goods

- Strategic location and favorable industrial climate
- High minerals deposit- Tin, Copper, Cobalt, Gold, Tungsten, Limestone, Vermiculite, Steel, Pozzolanic Government commitment and budgets (for example 2018/2019 budget theme “Industrialization For Job Creation And Shared Prosperity”)
- Liberal Policy and stable Macro - environment Limited legalities for industrial promotion.
- Flexibility of its labor markets and easy to migrate to industrial sector.

Industry contribution to GDP



Data Source: UBOS, 2017



Data Source: World Bank, 2017

Brief: Policy Formulation and Implementation

Policy Implementation

-Private Sector
-Government

Implementation

-Uganda Industrial Research Institute
-Uganda Export Promotion Board
-Textile Development Agency
-Uganda Development Corporation
-Uganda Warehouse Receipt System
-Uganda National Bureau of Standards
-Management Training and Advisory
- Uganda Investment Authority

Proposal development -
Concerned Department

Ministry of Trade, Industry and Cooperatives

Cabinet

Chairman : President
Members: Vice President, Prime minister, Ministers, Permanent Secretary and the concerned Executive Directors.

Approval

Cabinet and State Ministers

Technical committee/
Policy Analysis Unit

Policy Development

- Ministry of Trade Industry & cooperatives
- Draft Cabinet Memorandum
- Review of policy implication; legal, financial
- Certificate of clearance ,
 - Ministry of finance
 - Attorney General
- Table the policy proposal to cabinet -Approval
- Implementation by the responsible agency

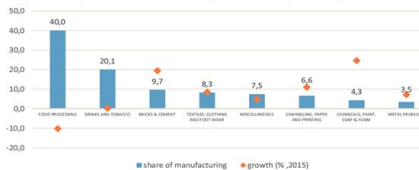
Judiciary,
Ruling party, Private sector and
Other stake holders

consultation

Salient features:

- Domination by small and medium enterprises (SMEs)
- Engages in end-product assembly and raw materials processing, producing low value added goods such- foods and beverages, woods
- 2/3 of manufacturing is Agro- Based e.g coffee, tea, fish, milk processing.
- Value addition per capita approx.USD 27
- Limited manufacturing exports role by medium and high technology activities compared to E.A, 13.8%

Figure 3: The Uganda Index of Manufacturing Production on (Base 2002)



Source UBOS 2016

Fig 4: Manufacturing value added per capita

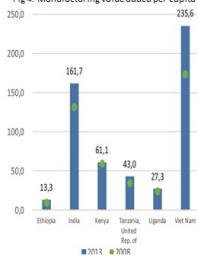
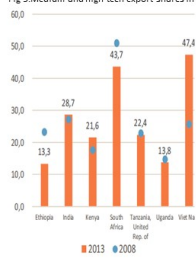
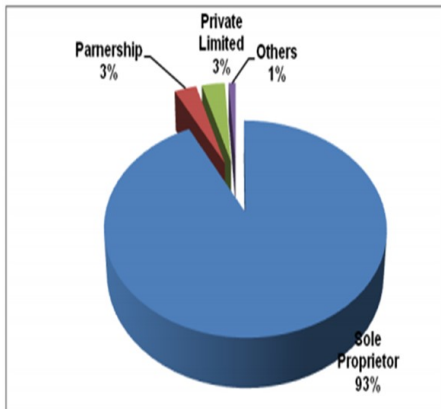


Fig 5: Medium and high-tech export shares in

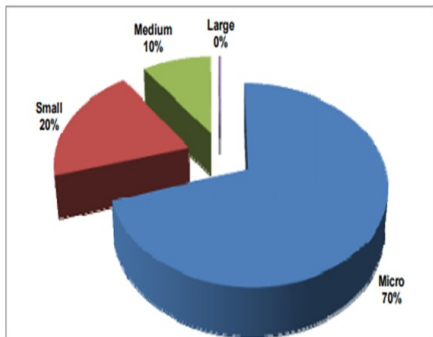


Source: UNIDO, 2016

Ownership of manufacturing business



Composition of Manufacturers



- metallurgical, food processing, leather and leather products, textile, clothing and garments, building and construction, paper printing and packaging, chemical and pharmaceutical products industry.

Brief History-Colonial Times:

- 1894-Uganda became a British Protectorate
- 1900-agreements were made with the leading rulers
- 1896-Decision to build Uganda railway
- 1902-Construction of Uganda railway begun at Mombasa
- 1920s-Main exports coffee and cotton tea
- 1931- Railway line connected Uganda to Mombasa port
- 1947-Hydro-electricity _ Owen fall dam
- 1950s-Mineral exploration at Kilembe and Tororo mines
- 1952- Formation Uganda Development Cooperation (Capital- £5M)

Post Independence Uganda Development Cooperation.

- 1964- Total capital expenditure to £13m and plough back £6-7m
 - Operated a fully integrated textile mill at Jinja (£3.25m)
 - A cement factory and phosphate fertilizer plant at Tororo (>£2M)
 - Tea estates and other agricultural enterprises.
 - Hotels and urban property
 - Copper mining, grain milling and meat and fish processing

• UDC Support for Private Firms

- Muljibhai Madhvani and Co.- £20m

Light factories

Sugar factory

- tea factories, producing 600,000 lbs of tea a year.
- oil mill producing 40,000 tons of cotton seed
- sweet and toffee factories
- Distillery producing 100,000 tons of spirits a year
- soap factory and a brewery

Heavy Factory

- Steel mill, 24,000 tons of steel products from scrap.
- Uganda Company; the oldest private firm in the country
 - importer of motor vehicles and electrical and industrial
 - growing and exporting of tea
 - pilot the growing of pepper, cashew nuts and vanilla



• Funds for industrialization

- UDC participation in mobilization of external loans
 - US Agency for International Development (AID) £700,000,
 - Commonwealth Development Corporation for- £460,000
- Development Finance Company of Uganda (DFCU)
 - Commonwealth Development Corporation-British
 - Gesellschaft fur Wirtschaftliche Zusammenarbeit-Germany
 - local government contribution-UDC
- Private enterprise
 - Investment Promotion Service to attract foreign capital for financing industrial development (H.H. the Aga Khan contributed £250,000)
 - Combining external capital with local government and private enterprise



Uganda's Industrial Strategy

- Latter colonial rule and the first decade after independence.
- Objective: Transformation into a modern industrial economy
- Policy: Import-substitution policy was aggressively pursued
 - Protection measures advocated to nurture infant industries.
 - over-valued exchange rate that discriminated against imported finished goods
 - Interest rates were influenced by government intervention
 - Heavy import duties on finished imported goods
 - Special loans and equity capital; and quotas allowing access to foreign exchange for imported
 - Inputs and remittances at subsidized official rates
- Improvement in the BOT
 - 1960s and the end of the 1970s, Uganda was doing well
 - 1954- surplus of £53.4 million
 - 1962-
- Civil unrests- 1964-1985:
 - (1964-Expelling the first president, 1971-Coup-Deta, 1975-Expelling of Asians, 1979-Tanzania liberation front, 1980-85-NRM Bush war)
- BOT deficient increase to US\$ 83 million (1980)- US\$ 2.3 billion in 2015.29
- Economic Recovery :1985- today:
 - Economic Recovery Programme (ERP)
 - Liberalization
 - privatization and open markets

Recommendation by
IMF & World Bank



Why industrialization?

- **The Constitution of the Republic of Uganda**
- Sec (ix) the right to development-
- In order to facilitate rapid and equitable development, the State shall encourage private initiative and self-reliance.
- Sec (x) the role of people in development
 - The State shall take all necessary steps to involve the people in the formulation and implementation of development plans and programmes which affect them.
- Sec(xi) Role of the State in development
 - The State shall stimulate agricultural, industrial, technological and scientific development by adopting appropriate policies and the enactment of enabling legislation
- **The Uganda Vision 2040**
 - Stronger and more competitive industrial base over the Vision
 - Developing industries that utilize the local potential
 - Attracting industries that can be relocated from fast emerging states.
 - Offshoring industries
 - Establishing economic lifeline industries,
 - Investing strategic industries
- **The National Development Plan II (2015/16-2019/20)**
 - The role of private sector in economic development
- **The National Industrial Policy 2008**



National industrial policy 2008

Aim:

- Build the industrial sector into a modern, competitive and dynamic sector
- Fully integrated into the domestic, regional and global economies

Objective:

- Exploiting and developing natural domestic resource based industries.

Priority areas:

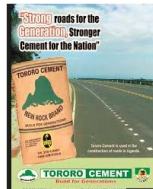
- Petroleum, cement, and fertilizer industries; and
- Promoting competitive industries that use local raw materials.

Focus:

- Agro-processing; food processing, leather and leather products, textiles and garments, sugar, dairy products, and value addition in niche exports.
- Knowledge-based industries, ICT, call centers', and pharmaceuticals that exploit knowledge in science, technology and innovation.
- Engineering for capital goods, agricultural implements, construction materials, and fabrication /Jua Kali operations

Target:

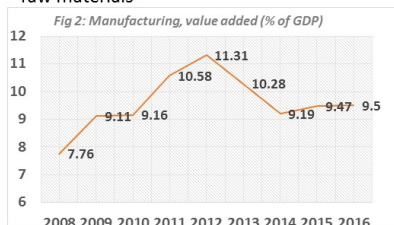
- 25% - Contribution of manufactured products to total GDP
- 30% - contribution of manufactured exports to total exports
- 30% - Value added in Industry (as a percentage of GDP)
- 4.2 score - Competitiveness Index



Target 1: 25% Contribution of manufactured products to total GDP

• Composition of Manufacturers

- Micro, Small and Medium Enterprises-93.5% of the sector
- Contribute appx 20% of GDP,
- Generate 80% of manufactured output
- 90% come from the Private Sector.
- Majority of the firms are sole proprietorships with a turnovers of less than UGX 5 million (£1,140).
- Deal in end-product assembly & processing raw materials



• What has been done

- Establishment of industrial and business parks
- Investment in physical infrastructural development such as, roads, revamp of railway system & Uganda Air line
- Establishment of Uganda Micro, Small & Medium Enterprise (MSME) Policy with Focus on Manufacturing sector.
growth by 10% annually, mainly;
 - Manufacture of food, beverage and tobacco;
 - Textile wearing apparel and leather;
 - Wood products including furniture;
 - Paper production , paper products, printing & publishing; and,
 - Rubber products.

• Challenges

- Inadequate information
- Standardization
- Product certification
- High tax bill to local manufactures
- Weak legal and institutional frameworks
- Underfunding of core institutions

Target 2: 30% Contribution of manufactured exports to total exports

- **Main exports:**

- Agri-based e.g. coffee leather&wood.
- Iron ore based e.g iron sheets & bars
- Mineral based-Cement, gold, Petroleum oils
- Service based – tourism, transport & construction.

- **Trading patterns:**

East African, COMESA, U.A.E, European Union and Middle East and Asia regions.

- **Current initiatives**

- Value addition in iron and steel, cement
- Enhancement of the extractive Industry particular e.g. Oil & gas.
- Improved quality.
- New markets in the global arena.

Major trading partners: E.Africa, COMESA, U.A.E, EU, Middle East and Asia regions.



Challenges

- Volatile exchange rates
- high interest rates on loans
- little value addition in the leading exports particularly - Agri based industries.
- high cost of production.

Target 3: 30% in Value added in Industry (% of GDP)

- Valued at USD 4.9B(2016)
Contributed by: mining, manufacturing, construction, electricity, water, and gas.
- Medium and high-tech industry (% manufacturing value added) - 0.11% >10years
- Taxes on goods and services (% value added of industry and services)- 10.58% (2016)
- Four industrial parks out of eight

Challenges:

-Weak linkages, limited power supply, under-developed industrial parks and lack of industrial clusters, weak and uncoordinated industrial actors.



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Target 3: 4.2 score - Competitiveness Index

- Over all ranking 114 out of 137
- Overall score 3.70
- Basic requirement 112 score 3.80
- Efficiency enhance 113/137 score 3.56
- Innovation and sophistication factors 90/137 score 3.45

Improvement in,

- legal frameworks that are friendlier to businesses.
- stable macroeconomic environment.
- Skilled and healthy workforce.
- Accessibility to markets and basic utilities



Fig 6: Competitive Index



Source of data: World Economic Forum.

Key Achievements

- Individual leadership in particular areas.
- Impact of globalization.
- Establishment of four industrial parks.
- Building of more road infrastructure and electricity dams.
- Cross-border markets negotiations and Protocols e.g. EAC Common Market, COMESA and AGOA.
- Public mobilization and investment in agriculture.
- Re-capitalization of Uganda Development Bank.

Key policy consideration

- Industrial change management
- Government Intervention to correct market failure.
- High economic growth & the investment implications
- Strengthening and deepening public-private-partnership.
- Innovation and commercialization
- Stepwise Approach to Implementation
- Collaboration and Support



General Sectoral Overview and Functionality

Fig 7: Share of credit to private sector
2016 (%)

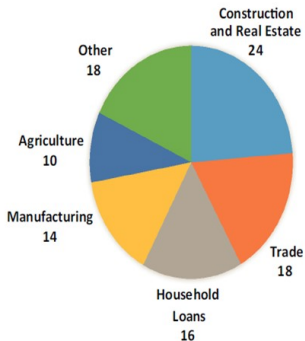
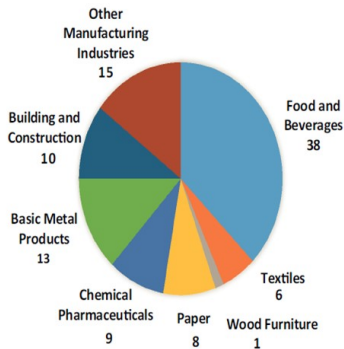


Fig 8: Share of credit to manufacturing sub
Sector, 2016(%)



Source: Bank of Uganda (2017)

Obstacles

Fig 9: Ranking of Top Business Environment Obstacles for Ugandan Firms 2006vs2013

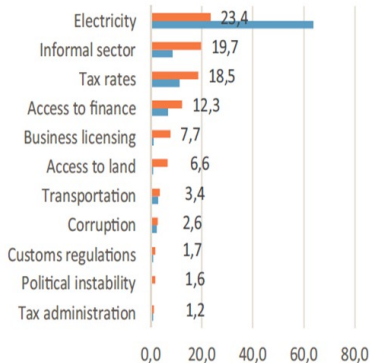
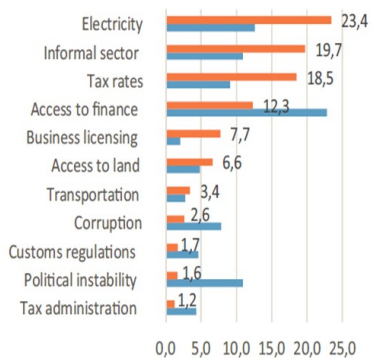


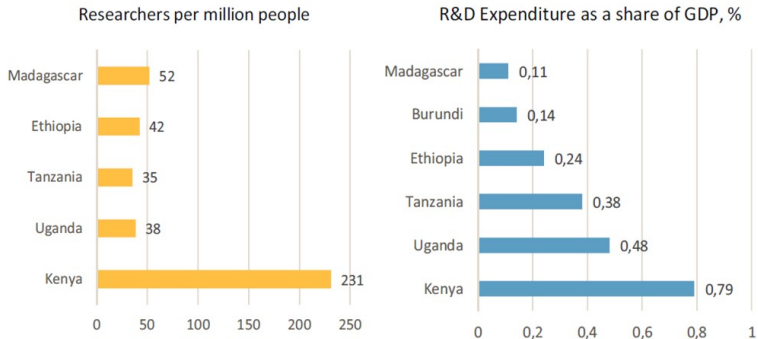
Fig 10: Ranking of Top Business Environment Obstacles for Ugandan Firms Vs SSA average (2013)



Source: World Bank (2017)

Investment in Research and Development

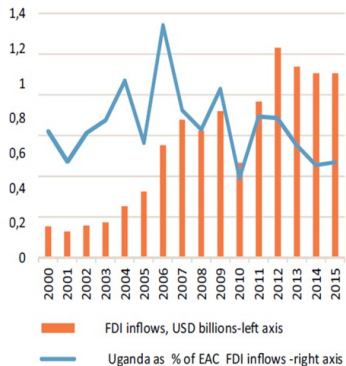
Fig 11: R&D Expenditure and Personnel, 2010



Source: UNESCO (2016)

Level of Foreign Direct Investment (FDI)

Fig 12: Uganda FDI inflows USD, billions & Share of EAC



Source: UNCTAD (2016)

Fig 13: FDI inward stocks (USD, billions)

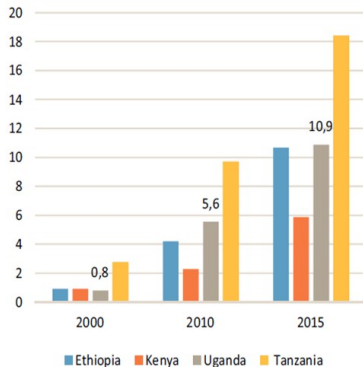
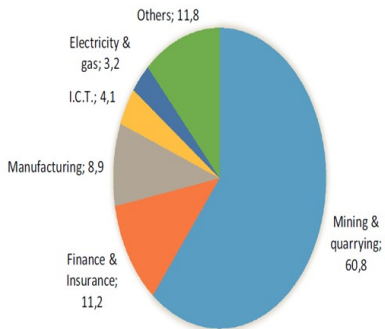


Fig 14: Sector Distribution of Foreign Direct Investment 2014 (stock percent)



Source: Bank of Uganda 2017

Source: Bank of Uganda (2016)

- **More needs to be done**
- Tap into the globalized niches in the production chains.
- Engage in light manufacturing global value chains.
- Promoting trade liberalization and provision of incentives
- Developing common standards and mutual recognition agreements within the East African Community.
- Reducing transaction costs and upgrading logistics services

Current Challenges

- Weak institutional support;
- Limited access to affordable credit
- Limited Infrastructure to support micro, small, and medium enterprises.
- Inadequate entrepreneurship and managerial skills;
- Costly, unreliable, and inadequate physical infrastructure, particularly quality transport, energy, and communication infrastructure;
- Lack of serviced industrial parks across the country;
- Unreliable supply of inputs such as raw materials, metals, and imported chemical products;
- Low level of technology and a lack of indigenous capability for technology and innovations mastery, which adversely impacts on productivity in manufacturing;
- Shortage in technical/technological skills to enhance adoption, adaptation, diffusion of innovative technologies



Way forward

- Institutional development & strengthening
- Public-Private-Partnership enhancement
- Infrastructure Development
- Deepening and widening the industrial base
- Harnessing technology, innovation, productivity, and linkages
- Financing industrial sector transformation
- Skills and human resource development
- Occupational Health and Safety
- Compliance with international standards and adoption of quality management systems
- Build a sustainable industrial development plan
- Women involvement in industrial development.
- Technological Learning and Absorption as a way to boost Industry in Uganda.
- Targeted Research and Development in key Manufacturing Sectors.
- Digitizing framework to enhance Industry
- Improvement in Value Chains
- "One Stop Center" for Investors



