SUPPORTING ECONOMIC TRANSFORMATION

INDUSTRIAL DEVELOPMENT IN UGANDA

An assessment of the policy framework

Linda Calabrese, Frederick Golooba-Mutebi and Maximiliano Mendez-Parra

December 2019

Acknowledgements

This study has been authored by Linda Calabrese, Frederick Golooba-Mutebi and Maximiliano Mendez-Parra, ODI. The authors would like to thank Dirk Willem te Velde and David Booth (ODI), Jun Hou (University of Lincoln) and Max Walter (CDA Uganda) for their inputs. We are grateful to the UK DFID for its financial support to this study. We are also grateful to the many officials, experts and firms that helped inform this paper, including Richard Sandall, DFID.

ODI's *Supporting Economic Transformation* (SET) programme is supported by the UK Department for International Development. All views expressed are those of the authors alone and do not reflect DFID or ODI views.

UKaid
from the British people

Table of contents

ACRONYMS

AfDB	African Development Bank
BIT	Bilateral Investment Treaty
BUBU	Buy Uganda Build Uganda
CET	Common External Tariff
DFI	Development finance institution
DFID	Department for International Development
DRC	Democratic Republic of Congo
EAC	East African Community
EPB	Export Promotion Board
EU	European Union
GDP	Gross domestic product
GoU	Government of Uganda
GVC	Global value chain
KPA	Kenya Ports Authority
MDAs	Ministries, Departments and Agencies
MGLSD	Ministry of Gender, Labour and Social Development
MoFPED	Ministry of Finance, Planning and Economic Development
MoWT	Ministry of Works and Transport
MSMEs	Micro, Small and Medium Enterprises
MTIC	Ministry of Trade, Industry and Cooperatives
MTTI	Ministry of Trade, Tourism and Industry
NDP II	Second National Development Plan 2015/16–2019/20
NPA	National Planning Authority
NU-TEC	Northern Uganda: Transforming the Environment through Climate-Smart Agribusiness
OECD	Organisation for Economic Co-operation and Development
PIRT	Presidential Investors' Round Table
PSFU	Private Sector Foundation Uganda
SET	Supporting Economic Transformation
SGR	Standard Gauge Railway
SITA	Supporting India's Trade Preferences for Africa
SMEs	Small and Medium Enterprises
UBOS	Uganda Bureau of Statistics
UDB	Uganda Development Board
UDC	Uganda Development Corporation
UFZA	Uganda Free Zones Authority
UK	United Kingdom
UIA	Uganda Investment Authority
UIRI	Uganda Industrial Research Institute
UMA	Uganda Manufacturers Association
UNBS	Uganda National Bureau of Standards
UNCCI	Uganda National Chamber of Commerce and Industry
UNDP	United Nations Development Programme
UNRA	Uganda National Roads Authority
URSB	Uganda Registration Services Bureau
US	United States
WDI	World Development Indicators

EXECUTIVE SUMMARY

In the past few decades, the Ugandan economy has grown steadily, and it has experienced some economic transformation, but its manufacturing sector has stagnated. With high population growth rates and many youth entering the labour market each year, industrialisation remains crucial for Uganda. This report reviews the framework for industrial policy in Uganda and assesses its potential to support the development of manufacturing.

Because of Uganda's landlocked position and its very high costs of transport, but also because of a focus on improving the trade balance by decreasing imports, strategies to support the manufacturing sector have paid more attention to value addition to domestic inputs rather than to embedding Uganda in global value chains. Unfortunately, this focus is not followed by clear policy commitment and implementation.

The main challenges facing domestic and foreign manufacturers operating in Uganda include high costs of infrastructure, limited availability of technical and managerial skills and lack of financial sources, especially in terms of longer-term financing. The Government of Uganda (GoU) has focused on creating a stable macroeconomic environment but has not determined strategic priorities, including identifying and supporting sectors with potentially higher levels of spillover. The Ministry of Trade, Industry and Cooperatives' has limited human and financial resources dedicated to pushing the industrialisation agenda, and the Ministry of Finance, Planning and Economic Development has limited technical expertise in industrial matters. The Uganda Investment Authority, mandated to attract and facilitate foreign and domestic investment, and the Uganda Free Zones Authority, in charge of regulating investments in the free zones, have limited resources to undertake strategic and targeted investment promotion activities. The policies drafted and institutions created for industrialisation receive limited funding, management and coordination.

Limited government support has resulted in an industrialisation process that is largely spontaneous and private sector-led. The Uganda manufacturing sector is dominated by agro-processing, food and beverages, household products, construction materials and fast-moving consumer goods. Most firms are small and medium enterprises concentrated in Kampala and Central region. Most of the manufactured products produced in Uganda are aimed at domestic consumption, and exports are limited to the regional markets (which include Rwanda, Burundi, South Sudan, Democratic Republic of Congo (DRC) and the regions of Kenya and Tanzania bordering Uganda). In this sense, Uganda has used the high costs of transport of these either vast and isolated (DRC) or landlocked countries (Rwanda, Burundi, South Sudan) to its advantage, as these offer a natural protection to producers. Exports to Organisation for Economic Co-operation and Development (OECD) countries, on the other hand, are mainly unprocessed primary products and natural resources.

Both foreign and domestic firms invest in manufacturing in Uganda. The entrepreneurs' class in Uganda is small, and invests mostly in trade and services, with manufacturing left to a handful of firms. Domestic firms involved in manufacturing are dominated by the Ugandan–Asian conglomerates, which are often very diversified, with investment ranging from agriculture to manufacturing to services.

Foreign firms are also involved in manufacturing. Many foreign investors come from the East African region. There are also foreign manufacturing firms from emerging markets. South Asian firms are traditionally strong because of historic connections with Uganda, and China is emerging as a new player in several subsectors, including construction materials. Firms from OECD countries are a minority in the industrial and manufacturing space.

There are opportunities for programmes to promote investment in the manufacturing sector and to overcome the challenges mentioned above. We suggest aligning any potential programme's work along four main lines:

- Improving infrastructure for manufacturing. This entails improving the capacity of government institutions to plan, advocate for and enact strategic choices in terms of infrastructure for the manufacturing sector.
- Investment promotion, facilitation and aftercare; and export promotion. This could include developing a strategic and targeted approach to investment promotion and building the capacity of GoU in this area.
- Supporting firms’ access to finance through the promotion of strategic foreign investment and match-making between firms, but also through the facilitation of investment by development finance institutions and other financiers.
- Building the capacity of the private sector. This entails providing scarce skills (mostly higher-technical and managerial skills) and facilitating public–private dialogue to design training programmes (on the job or in training schools) that respond to the needs of the private sector.

A realistic support to the Ugandan manufacturing sector would need to avoid overreliance on the traditional OECD investors. Instead, there is a need to open up the space to increased non-OECD investment (e.g. from China), in conjunction with domestic investment. Attention must be paid to the type of products, which need either to be suited to the domestic and regional market or to entail enough value addition to offset the high costs of transport.

1. INTRODUCTION

The Ugandan economy has experienced sustained growth since the 1990s. During the same period, Uganda has seen some degree of economic transformation, with the industrial and services sectors growing compared with the agriculture sector. However, the manufacturing sector has remained stagnant. This has been accompanied by low levels of job creation, diagnosed as ‘jobless growth’ (MGLSD, 2018).

This is a challenge for Uganda, as its rapid population growth requires large-scale job creation to absorb new entrants into the labour market. The Supporting Economic Transformation (SET) programme has estimated that, between 2015 and 2030, Uganda needs to create 650,000 new jobs annually (or 1,780 jobs each day) to employ its people (SET, 2018). Large-scale employment creation can be achieved through labour-intensive manufacturing.

This report aims to review the framework for industrial policy in Uganda and to assess its potential to support the development of manufacturing. It looks at the policies and institutions in charge of supporting the manufacturing sector. We focus on manufacturing because other activities classified under the industrial sector (construction and mining) require separate discussions and different policy tools.

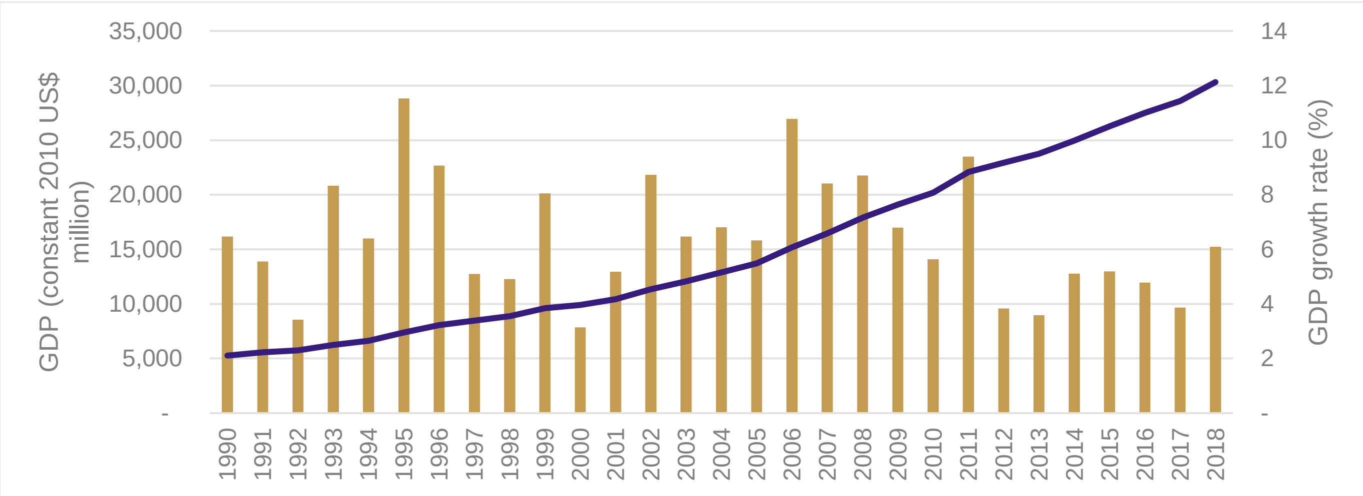
The report is based on the findings of interviews conducted in 2016 in Uganda and in the UK. Interviews were conducted with the Government of Uganda (GoU), the private sector, experts and development partners. The findings of these interviews, supported by a review of the literature and of secondary data, are presented here. The short timeframe in which the data were collected and the report was prepared constitutes a limitation, and some of the remarks are based on the authors’ best judgement on the information collected.

Section 2 of this report reviews the current status of the industrial sector in Uganda. Section 3 discusses the institutional framework and its functioning, assessing its strengths and weaknesses Section 4 analyses private sector interests and capabilities. Section 5 reviews potential policy measures for the short and medium to long term. Section 6 concludes.

2. THE UGANDAN INDUSTRIAL SECTOR

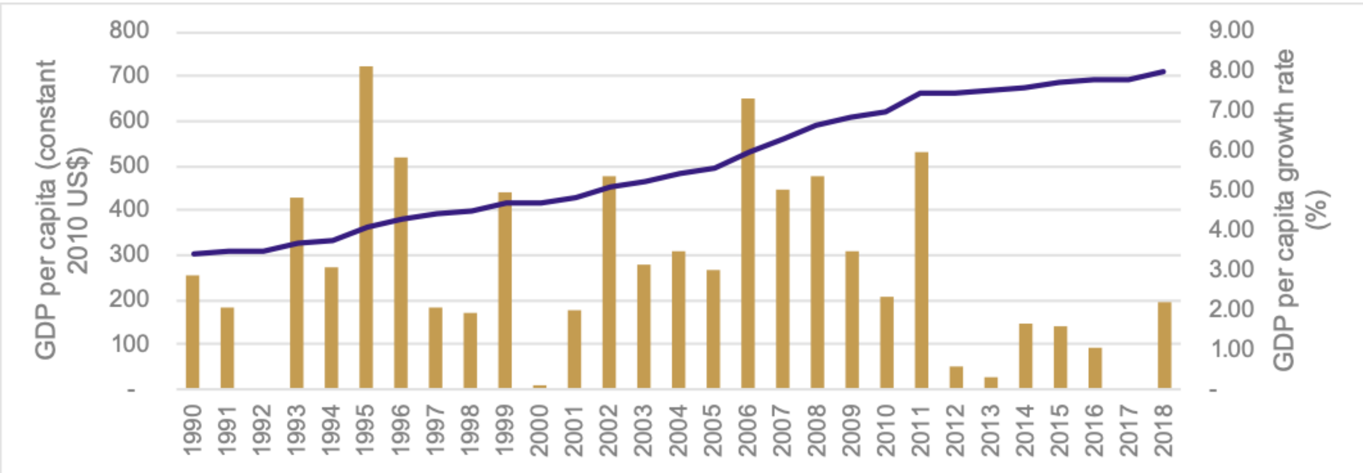
The Ugandan economy has experienced sustained growth since the 1990s. Real gross domestic product (GDP) grew at an average of 6.5% annually during 1990–2018, whereas real GDP per capita grew more slowly, at 3.1% per annum, during the same period (WDI).[1]

Figure 1. Uganda's GDP growth (at constant 2010 US$ values)



Source: World Bank WDI

Figure 2. Uganda's GDP per capita growth (at constant 2010 US$ values)

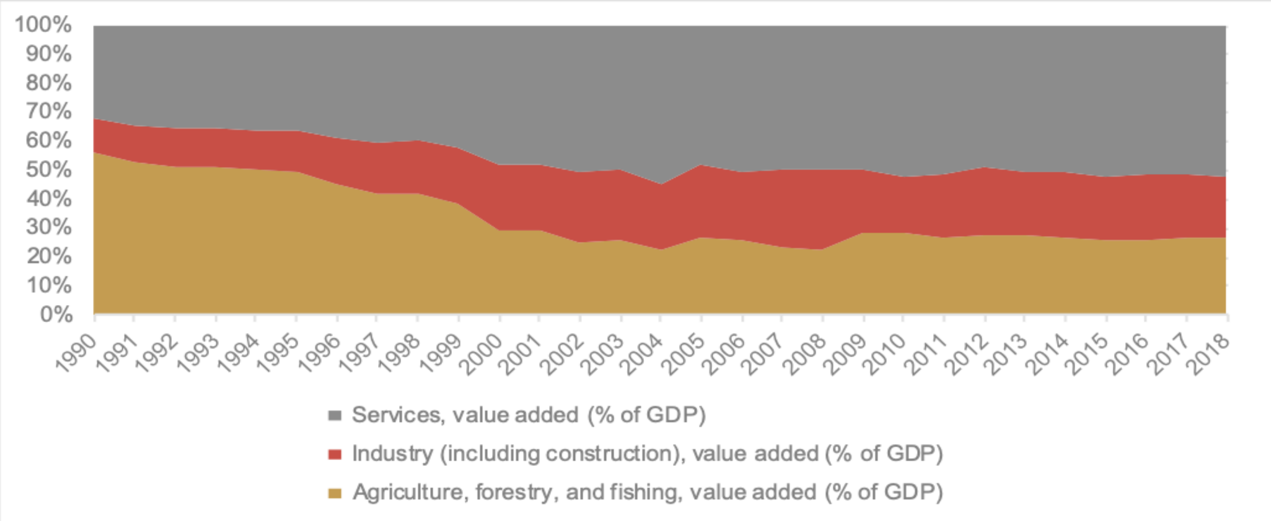


Source: World Bank WDI

During this period of sustained growth, Uganda experienced some degree of economic transformation. The share of agriculture value added in GDP declined from 53% in 1990 to 24% in 2018. The contribution of industry (including manufacturing, construction and mining) to GDP grew from 10% to 20%, and the contribution of the services sector from 30% to 48% (WDI).

[1] However, much of the growth reversed the decline in per capita income that took place in the 1970s and 1980s. It is only around 2000 that Uganda's real GDP per capita reached the 1970s level (Selassie, 2008).

Figure 3. **Composition of Uganda's GDP (%)**

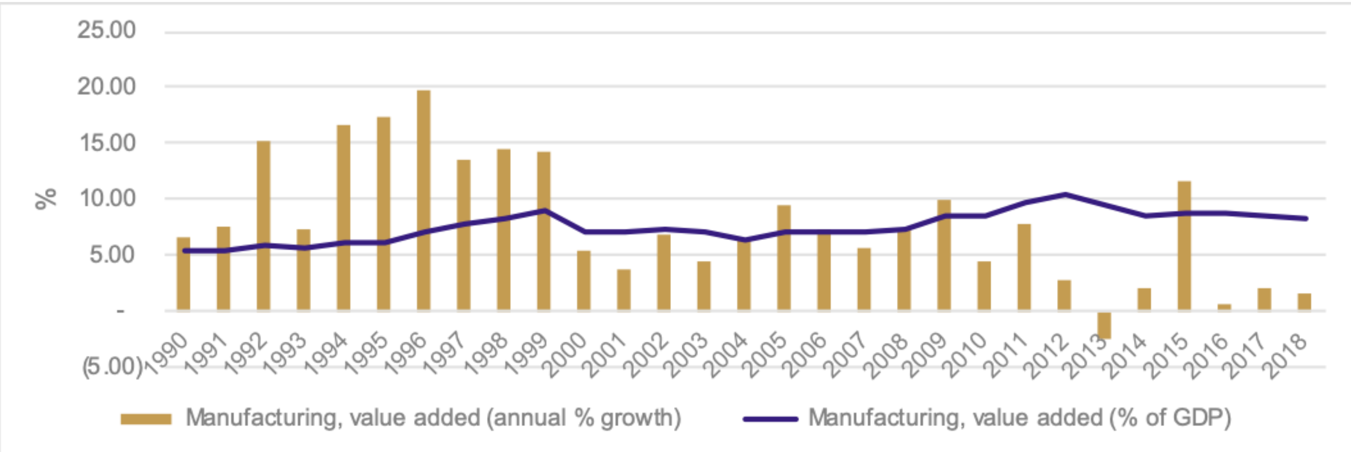


Source: World Bank WDI

However, the share of manufacturing (as a subset of industry) has experienced weaker growth, increasing from 5% to 8% of GDP in the same period (WDI). Figure 4 below highlights these trends, showing how the manufacturing sector did not grow substantially as a share of GDP. The figure also shows the variability in the performance of the sector, which has exhibited years of growth as well as periods of decline. The growth of the manufacturing sector's contribution to GDP has slowed down in the past three decades. In 1990–1999, average annual growth was 13.2%, whereas in 2000–2009 it slowed down to 6.6% and in 2010–2018 it declined to 3.4% (WDI).

The performance of the various manufacturing subsectors has been mixed. During the period 2010–2014, for example, the real output growth of the food processing, drinks and tobacco sector increased by 8%, chemicals fell by 3% and textiles, clothing and footwear dropped by 11% (Balchin et al., 2016).

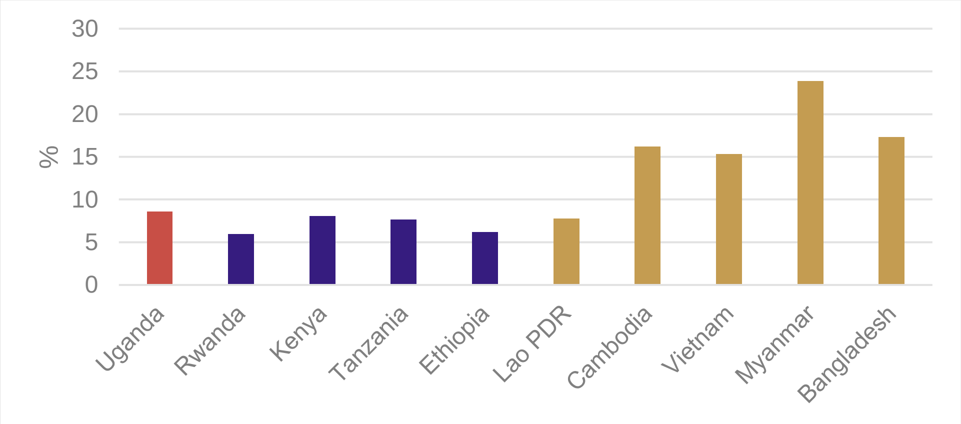
Figure 4. **Performance of Uganda's manufacturing sector (% of GDP)**



Source: World Bank WDI

While the share of Uganda's manufacturing sector is in line with the Sub-Saharan African average, it is relatively low compared with that of other developing countries, for example those in Asia. Commentators argue that, given the growth rate Uganda has achieved in the past three decades, the transformation process has been weak (Selassie, 2008) and the economy has not transformed enough (Kjær and Katusiimeh, 2012). Moreover, Uganda is not very integrated with the world economy, and, despite some limited degree of diversification of its exports, economic growth has not been export-led (Selassie, 2008).

Figure 5. **Manufacturing value added, selected countries, 2017 (% of GDP)**



Source: World Bank WDI

Overall, Uganda has not yet industrialised. While providing sustained growth, the pro-market reforms of the 1980s, 1990s and 2000s have failed to deliver on the promised private sector-led industrial development (Shinyekwa et al., 2016). The economy still relies on agriculture and the services sector. The industrial sector is dominated by small-scale firms providing limited value addition.

Industrialisation, and especially the manufacturing sector, remains crucial for Uganda. The country has the second highest (although declining) dependency ratio in the world (Hausmann et al., 2014; WDI). Uganda also has one of the world's highest fertility rates (number of children per woman) and population growth rates, at above 3% (ibid.) The National Planning Authority (NPA) projects that, if current trends continue, the gap between the working-age population and the employed population will increase from 5 to 22 million people (NPA, 2014).

Uganda has a low average unemployment rate (with unemployment high in some areas, notably Kampala), but underemployment and vulnerable employment are high. Almost half of the working-age population is in near-subsistence agriculture (Obwona et al., 2014; Walter, 2019). The SET programme suggests that Uganda needs to create 650,000 jobs annually (that is, 1,780 jobs each day) between 2015 and 2030 to absorb new entrants to the labour market (SET, 2018). International experience suggests that labour-intensive manufacturing is a quick way to create the necessary employment opportunities.

3. UGANDA'S INDUSTRIAL POLICY REGIME

The small size of the Ugandan manufacturing sector can be attributed to many factors. This section reviews the current industrial policy regime to identify the main organisations and policies involved, and to assess their strengths and weaknesses and their ability to deliver industrial development.

3.1. Level of political commitment to promoting investment in employment-intensive manufacturing

NATIONAL PLANNING FRAMEWORK

GoU has declared its interest in promoting industrialisation, and has enshrined this into its long-term development plan, Vision 2040. It has taken important steps towards promoting investment in manufacturing through the creation of policies and institutions. However, the focus has been broader than manufacturing, covering all value addition activities.[2] The president has often prompted GoU and the private sector to focus on value addition, without a specific focus on manufacturing.

With regard to medium-term planning, the Second National Development Plan 2015/16–2019/20 (NDP II) lists five priority areas that include neither industrial development nor manufacturing.[3] While in terms of development strategies NDP II explicitly mentions 'industrialization and export oriented growth through value addition, agro-processing, mineral beneficiation, selected heavy and light manufacturing' (NPA 2015, p. xxiii), the plan does not articulate a clear vision for the sector. Even if it is included in high-level plans, industrialisation does not find a place in medium-term planning in Uganda.

Throughout GoU's policies and strategies, the focus remains on adding value to domestic inputs, such as agricultural products and minerals. This is partly because of the country's geographical constraints. Uganda is landlocked with high (though declining) transport costs, and importing inputs is expensive (Eberhard-Ruiz and Calabrese, 2017). For Ugandan firms, importing inputs and exporting outputs take longer and cost more than for their coastal counterparts. This tilts the interest of GoU away from global value chains (GVCs), towards value addition to domestically produced inputs and raw materials.

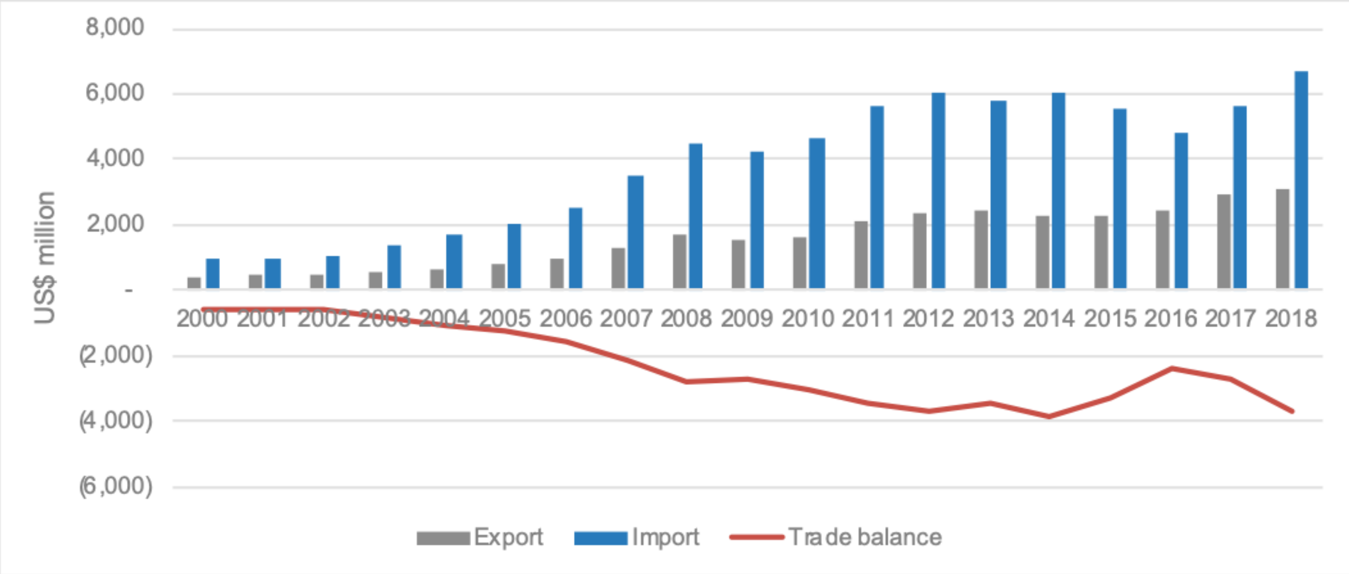
Another reason for promoting the use of domestic inputs lies in the political interests in maintaining a trade surplus. In recent years, Uganda has always had a trade deficit with the rest of the world, importing more than it was exporting (Figure 6). Decreasing imports has recently been the object of explicit political declarations (President Museveni said the government was focused on achieving a global trade surplus; The Independent, 2019), as well as one of the driver's behind the Ministry of Trade, Industry and Cooperatives (MTIC)'s Buy Uganda Build Uganda (BUBU) policy, discussed later in this report.

---

[2] See, for example, President Museveni's keynote opening speech at the National Resistance Movement Members of Parliament retreat in Kyankwanzi, 8 February 2015, available at https://www.scribd.com/document/255268209/Kyankwanzi-Opening-8th-Feb-2015-Final-Version (accessed 20 July 2019).

[3] The five priority areas are (i) agriculture; (ii) tourism; (iii) minerals, oil and gas; (iv) infrastructure development; and (v) human capital development.

Figure 6. **Uganda's exports, imports and trade balance**



Source: Author's calculations based on UN Comtrade data

In summary, the manufacturing sector is not clearly embedded in the national planning framework. The remainder of this section looks at the institutions involved in industrial development and assesses their ability to lead on the industrialisation agenda in Uganda.

MINISTRY OF TRADE, INDUSTRY AND COOPERATIVES

The industrial development agenda in Uganda is spearheaded by MTIC (previously called the Ministry of Trade, Tourism and Industry, MTTI). MTIC is also responsible for the National Industrial Policy 2008. The focus of the policy is on natural domestic resource-based industries (such as petroleum, cement and fertiliser); agro-processing; knowledge-based industries (information and communication technology, ICT, call centres, pharmaceuticals); and engineering for capital goods, agricultural implements, construction materials and others. At the time of writing, a new National Industrial Development Policy is under preparation, and it is likely to be launched soon (UNDP, 2018).

By the 10th and final year of its implementation (2018/19), the policy aims to achieve an increase (i) in the contribution of manufactured products to total GDP to 25%; (ii) in the contribution of manufactured exports to total exports to 30%; and (iii) in value added in industry (as a percentage of GDP) to 30%; and (iv) a Competitiveness Index ranking of 4.2 (although no baseline is provided for these indicators) (MTTI, 2008). Looking at 2018 data, it is now evident that more effort is needed to reach these targets.

Table 1. **Comparison between National Industrial Policy targets and actual figures, 2018**

Indicator	2018 figure	National Industrial Policy target
Manufacturing value added to GDP	8.3	25
Manufactured exports as % of total exports	22.5	30
Industry value added (as % of GDP)	19.9	30
Competitiveness Index	3.7 (2016/17)	4.2

Source: For manufacturing value added to GDP, manufactured exports and industry value added: WDI; for Competitiveness Index: World Economic Forum; for National Industrial Policy target: MTTI (2008)

Our interviews with MTIC staff revealed a clear commitment to promoting value addition to primary products and raw materials produced in Uganda but very little interest in developing other types of manufacturing. Limited attention was paid to the opportunities offered by participation in GVCs, and to different export markets.

Regarding the capacity of MTIC, from our interviews it appears staff have good knowledge of the Ugandan manufacturing and industrial sector. However, moving from theoretical and policy knowledge towards the implementation of policies remains a challenge.[4] The ministry's Department of Industry and that of Micro, Small and Medium Enterprises (MSMEs) cumulatively employ fewer than 40 staff. These two small departments probably lack the resources to implement large and complex policies. While being the leading institution on industrial development in the country, MTIC also displayed limited coordination with other ministries, departments and agencies (MDAs) dealing with other aspects of economic policy that are essential to promoting industrialisation, such as investment promotion and trade facilitation (even when the latter falls under the mandate of a different division within MTIC), infrastructure planning, etc.

MTIC has limited financial capacity (discussed below). Within the ministry, the trade portfolio is larger and receives more attention and resources. This is an indicator of GoU's relative interest, skewed towards the trade rather than the industrialisation agenda.

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

The Ministry of Finance, Planning and Economic Development (MoFPED) is the institution in charge of policy-making in the economic sector. MoFPED has an interest in the industrialisation process as part of the country's overall economic development. In 2017, MoFPED published its National Strategy for Private Sector Development: Boosting Investor Confidence for Enterprise Development and Industrialisation 2017/18-2021/22. This aims to anchor GoU's support to the private sector in the industrialisation agenda. Despite the stated focus on industrialisation, the measures suggested in the strategy remain high-level, with little scope for immediate implementation. There is some reference to the development of industrial parks, for example, but little attention to potential markets, the role of foreign investment and that of infrastructure.

At the time of our visit, MoFPED was also preparing a review of Uganda's industrialisation efforts for internal consumption. This reveals an interest in understanding how to use industrialisation for development. However, our interviews indicate that, although MoFPED is in charge of economic policy, and consequently its industrial policy components, MTIC as the line ministry has more technical knowledge of the sector.

MoFPED is also responsible for the legal framework for investment. Several agencies related to investment policies, such as the Uganda Investment Authority (UIA) and the Uganda Free Zones Authority (UFZA), sit under MoFPED.[5] A new Investment Code was adopted in 2019, to replace the previous, outdated, 1991 version. The new code strengthens the UIA and establishes it as a one-stop centre for investors. It includes provisions on protection from expropriation, setting rules for compensation. It requires foreign entities (including those already in operation) to register with the UIA and sets criteria to qualify for investment incentives. In addition to the Investment Code, Uganda's investment relations with other countries are regulated by a few Bilateral Investment Treaties (BITs). Six BITs are currently in force (with France, Denmark, the Netherlands, the UK, Switzerland and Germany).

With its control over budget allocation, MoFPED can set national priorities and determine the support provided to the industrialisation agenda in country. Support to industrialisation does not come only from the budget allocated to the trade and industry portfolio. Public investment in infrastructure, energy and trade facilitation all contribute to the development of the industrial sector. This said, the funding accruing

[4] This challenge is not unique to MTIC, and it was mentioned by many of our interviewees in Uganda.

[5] Although, at the time of our interviews, discussions were taking place to bring back the UIA under MTIC, where it had originally been placed.

to the institutions that coordinate and promote this agenda (in this case MTIC) can indicate GoU's level of commitment.

For the last three financial years (2017/18–2019/20), the budget speech had the same theme: 'Industrialisation for Job Creation and Shared Prosperity'. This, in theory, signals a strong government interest in industrialisation. However, in 2018 the trade and industry portfolio received USh 134.1 billion ($36.5 million), or around 0.5% of the total sectoral allocation. In the 2019 budget, this has increased to USh 202.8 billion ($55 million); however, in terms of the share in the total allocation, this remains similar, at 0.6%. This is comparable with other sectors, such as science, technology and innovation and ICT (MoFPED, 2019b), and does not indicate prominence of industrialisation in the government's development agenda.

In addition to this, the 2019/20 budget sees a considerable allocation towards infrastructure for industrialisation: USh 147 billion ($40 million) for electrification of industrial parks; and USh 103 billion ($28 million) for the development of supportive export infrastructure in export processing zones and industrial parks (MoFPED, 2019a). This willingness to finance infrastructure suggests a push towards the industrialisation agenda.

PRESIDENT'S OFFICE AND PRESIDENTIAL INVESTORS ROUND TABLE

The Presidential Investors' Round Table (PIRT) is a high-level forum that allows both domestic and foreign investors to discuss their challenges with the president, who can direct action towards quick resolution of these problems. Page (2014) ranks it as one of the most succesful of these president-led mechanisms in Africa in terms of number of reforms initiated, involvement of the private sector and level of satisfaction of stakeholders.

However, during our interviews with firms and other stakeholders, the PIRT did not emerge as one of the main players in the investment arena. Since its launch in 2004, the PIRT has never had a clear focus on the manufacturing sector, apart from some quick forays into agribusiness and value addition. The sixth and current phase of PIRT, to run in 2019–2021, focuses on (i) oil and gas; (ii) mineral value addition; (iii) agriculture value addition; (iv) tourism; (v) transport and logistics; and (vi) Uganda's competitiveness and ease of doing business. This, again, is telling of the current focus of industrialisation, narrowly centred around adding value to domestic inputs. In addition, as Page (2014) recognises, the PIRT does not have an enforcement mechanism (as it is deemed to be self-enforcing).

The President's Office is aware of the challenges facing the manufacturing sector and investors in general, and is particularly concerned about the cost of electricity. In October 2016, the president vowed to lower electricity tariffs from $0.11 to $0.05 (State House of Uganda, 2016), but we understand this measure has not yet been implemented.

It is worth highlighting that President Museveni has often been very explicit in his support to the manufacturing sector. The president has urged Chinese and other foreign investors to set up factories in Uganda, to which a small but highly symbolic number have responded positively. This has resulted in a number of new manufacturing ventures opened in the country, which the president often inaugurates or visits (see New Vision, 2019). However, the president's assistance does not extend beyond declarations of support and exhortation to investors to engage in value addition.

In summary, the political commitment of GoU to promoting investment in manufacturing is present, but remains limited to support rather than policy actions and reforms. Despite extensive discussion on value addition, this seems to be limited to an industrialisation agenda based on domestic inputs, and the overall industrialisation portfolio remains underfunded.

3.2. Strengths and weaknesses of the industrial policy regime

This section reviews the strengths and weaknesses of the Ugandan industrial policy regime in the following functional areas, identified in the literature as central to developing the industrial sector:

- quality and leadership of the industrial policy process
- conduciveness of trade policy, trade rules and trade facilitation (including corridors)
- provision and regulation of special economic zones, industrial clusters or hubs (including the required infrastructure and skills)
- effective investment facilitation (including aftercare)
- local capability-building (for local content or acquisition of key capabilities by national firms or public agencies)
- supportive infrastructure planning
- learning with the private sector to address initial and emerging constraints
- selective, conditional support to building firm capabilities (including finance).

QUALITY AND LEADERSHIP OF THE INDUSTRIAL POLICY PROCESS IN UGANDA

As discussed in Section 3.1, responsibility for the industrial policy process falls under MTIC. The ministry is also in charge of ancillary policies supporting industrial development. These include the National Trade Policy 2007, the National Textile Policy 2009, the National Standards and Quality Policy 2012, the National Leather and Leather Products Policy 2015 and the Uganda MSME Policy 2015.

Another notable policy by MTIC is the BUBU Policy 2014. This aims to encourage government consumption of locally produced goods, especially where productive capacity already exists. The use of government procurement as a tool to develop local manufacturing is widely debated by the public and private sectors alike.

Under MTIC’s supervision, several agencies play a role in supporting manufacturing in Uganda. These include the Uganda Industrial Research Institute (UIRI), the Export Promotion Board (EPB) and the Uganda National Bureau of Standards (UNBS). UIRI and UNBS are very active in their respective roles. However, both institutions are mandated to cover only one specific aspect of the industrialisation agenda, and have no oversight over the whole process.

As shown in Section 3.1, MoFPED is involved in the industrial policy process from the broader economic policy perspective. MoFPED is the lead ministry in terms of investment policy, and thus responsible for attracting both foreign and domestic investors. However, MoFPED lacks a deep understanding of the manufacturing sector that would make it well placed to lead on industrial policy.

The limitations of the lead ministry, and the scarce interest in industrialisation demonstrated by other MDAs, have led to a void in the industrial policy process. While in principle there is a will to build a stronger industrial sector, this has yet to produce any notable result. Efforts to support the private sector in manufacturing and industrial development have been scattered. Experts have noted how government intervention in the industrial sphere so far has amounted to a ‘broad range of uncoordinated and enterprise-specific interventions’ (Selassie, 2008, p. 4). In the past two to three decades, GoU has focused on creating a stable macroeconomic environment but has not determined strategic priorities to be pursued (Selassie, 2008, Obwona et al., 2014).

TRADE POLICY, FACILITATION AND STANDARDS

Trade policy

Uganda’s trade policy is linked to that of the East African Community (EAC). The EAC forms a common market, and imposes a Common External Tariff (CET) on goods imported from outside the community.

This is broadly designed to promote domestic value addition by applying the lowest tariff rate (0%) to raw materials and the highest (25%) to finished products.[6]

Trade policy, and the CET in particular, are therefore used to achieve industrialisation and promote domestic value addition. Discussions around the review of the current CET, for example, are framed around the use of trade policy for industrialisation (see, for example, The New Times, 2017 for Rwanda). The use of regional trade policy for industrialisation was also made explicit when the phase-out of second-hand clothing imports was announced, in 2016, in an attempt to promote domestic production of garments (Calabrese et al., 2017a).

While the CET is designed to support East African manufacturers, its implementation often defeats the purpose. There are examples of goods such as packaging material, steel rods, etc., used as inputs in the production process (and that could therefore be charged the 10% tariff) but considered finished products by customs officials, and charged 25% (Akileswaran et al., 2018). This issue affects all East African countries, not only Uganda.

The African Continental Free Trade Area is also important to consider. This agreement, aiming to eliminate tariffs among all participating African countries, is often depicted as a tool to increase intra-African trade in manufactured products, thus promoting industrialisation (Signe, 2017). The first phase of negotiations, covering trade in goods and services and dispute settlement procedures, has been concluded, and the agreements are now being implemented. The second phase of negotiations is ongoing. Uganda is among the countries that ratified the first phase agreement.

Trade facilitation

Uganda's 'landlockedness' is considered one of its main economic disadvantages. The long distances and high costs incurred when transporting goods do not position Uganda favourably to attract GVCs. However, Uganda's position at the heart of the EAC has allowed it to act as a trading hub for goods transiting towards South Sudan and Democratic Republic of Congo (DRC), and also Rwanda, Burundi and the parts of Tanzania and Kenya bordering Uganda. Traders from these countries travel to Uganda to buy goods brought in by Ugandan importers (such as motor vehicle spare parts, garments, textiles and building materials), and sometimes also goods manufactured in Uganda.

The EAC has deepened integration among its Partner States,[7] but this has not effectively increased intraregional trade. Intra-regional imports and exports have remained broadly stable as a share of total trade since implementation of the EAC Customs Union and of the Common Market (see Figure 7).

[6] Intermediate goods are charged a 10% tariff.

[7] Burundi, Kenya, Rwanda, Tanzania and Uganda, recently joined by South Sudan. DRC has also requested accession.

Figure 7. **Intra-EAC trade as a share of total trade**

Note: Data for 2017 and 2018 are aggregated and mirror data.
Source: EAC (2014) and International Trade Centre

Being part of the EAC has enabled a reduction in transport times, and a more limited reduction in transport costs (Eberhard-Ruiz and Calabrese, 2017). The EAC Customs Union and Common Market aim for the free circulation of goods, services, people and capital in the community, and trade facilitation has improved in the region through the efforts of the EAC and of organisations like TradeMark East Africa. However, non-tariff barriers still remain a source of hindrance to regional trade flows (Calabrese and Eberhard-Ruiz, 2016).

Trade costs are affected by regional dynamics and by coastal countries' decisions, and are not fully under Uganda's control. For example, improvements at the port of Mombasa (and, more marginally, Dar es Salaam) could greatly affect transportation costs and times for Uganda. Similarly, the construction of a Standard Gauge Railway (SGR) in Uganda depends largely on the construction of the Kenyan portion of the railway from the port of Mombasa to Busia/Malaba at the border with Uganda.

Trade standards

Standards fall under the mandate of UNBS, an agency under MTIC. UNBS aims to develop standards and certification for export products, and it certifies products and processes. UNBS also provides standards enforcement when necessary. At the time of our interviews, the institution had limited capacity and is therefore prioritising certification of products for the domestic market rather than for export.

Standards are very important to allow Uganda to participate in GVCs. Firms need to be able to adhere to certain production standards set by downstream firms. UNBS could play an instrumental role in helping Ugandan firms achieve this, but at the moment its capacity seems very constrained by resourcing.

PROVISION AND REGULATION OF SPECIAL ECONOMIC ZONES, INDUSTRIAL CLUSTERS OR HUBS

The presence of zones dedicated to industrial activities is relatively limited in Uganda. The nomenclature is also confusing. While many people talk about 'special economic zones', these are not currently in existence in Uganda. There exist, however, industrial areas in the proximity of major cities such as Kampala and Jinja (for example the so-called 'industrial area' between Kololo and Bugolobi, and Nakawa, both in Kampala), or along major transport corridors. These are clusters of industries that receive no specific support. Then there are industrial parks, such as the one in Namanve, as well as 'free zones'.

The industrial park in Namanve, close to Kampala, was created on the initiative of UIA. This provides infrastructure and serviced land to firms, but no special investment regime is in place. The park is the first of its kind in the country, but it has not been as successful as hoped. A total of 340 investors have received a plot in the park, but works and provision of infrastructure have been delayed as a result of lack of funding (Ladu, 2016). At the time of our interviews, most of the land had been allocated, but only half of it was occupied with buildings and constructions. UIA plans on building on this experience to improve its activities in the future, for example by obligating firms to construct and start operations within a certain period of time after the land has been allocated.

In addition, there are several private industrial parks. Some of these have been established by foreign investors. For example, a news outlet has reported five industrial parks built by Chinese investors in the eastern and central parts of the country (Xinhua, 2019).

GoU is developing a free zones regime. The term 'free zone' is intended to cover both single-factory zones and industrial parks. Under this regime, investors receive a series of duties exemptions and tax holidays, with the obligation to export at least 80% of what they produce. In the case of multi-factory free zones, these also have access to serviced land and infrastructure (and in this sense the zones are similar to special economic zones) (UIA, 2016). GoU hopes to increase the local content of goods produced in the free zones. Legal requirements regarding local content are currently being developed.

UFZA has ambitious plans to develop free zones. According to its 2017/18 annual report, it has declared eight free zones and announced plans for another six (fourteen zones in total). The eight free zones declared in fiscal year 2017/18 were single-factory zones, with seven of them already operational and employing around 8,000 people. Factories in the zones were involved in flower, tea and coffee processing, and gold processing, among others, with the majority of exports ($28 million) going to the Netherlands (UFZA, 2018).

EFFECTIVE INVESTMENT FACILITATION AND AFTERCARE

UIA is the agency mandated with investment promotion. Originally set up under MTIC, UIA now comes under MoFPED.[8] UIA aims to promote both domestic and foreign investment. The priority sectors for investment are in line with national planning documents such as the NDP II. These include manufacturing, pharmaceuticals, extractives, tourism, agro-processing and ICT.

UIA is also responsible for other policy initiatives linked to investment. Notable examples are the Namanve Industrial Park and the creation of a one-stop centre for business registration and promotion. Both of these initiatives have experienced significant delays, coordination issues and duplications, which signal low capacity in UIA. In recent years, the performance of investment, especially foreign, in Uganda seems to have been driven more by exogenous factors (discovery of oil in Albertine region in the early 2000s, credit crunch in the late 2000s) than by any investor promotion efforts made by UIA (Ajaegbu, 2014).

UIA has limited resources to deal with investors' needs. At the time of our interviews, the organisation had only about 30 technical staff. With these resources, UIA can only react to prospective investors' request (that is, it deals with investors that approach the organisation with requests for support); it cannot proactively promote investment opportunities in the country. We understand that the support and aftercare UIA provides to investors is limited, and most firms tend to address problems on their own.

UFZA should perform a similar role in terms of investment and aftercare for investors in the free zones. As well as promotion and facilitation of investment, UFZA's mandate includes regulation.

[8] At the time of our interviews there were discussions about the most appropriate institutional 'home' for UIA.

Uganda ranks 127th out of 190 economies on the World Bank Doing Business 2019 indicators, but in terms of 'starting a new business' it ranks 164th. Business registration processes in Uganda remain cumbersome, though there are efforts to streamline them. The entire process requires 13 steps and takes 24 days. Although the time and cost required to start a business are in line with the Sub-Saharan African average, Uganda does not compare well with its regional neighbours Kenya and Rwanda (Table 2).

Table 2. Ease of starting a business for selected countries, 2019

Indicator	Definition	Uganda	Rwanda	Kenya	Tanzania	Sub-Saharan African average
Procedures to register a firm	Total number of procedures required to register a firm	13	5	7	10	7.4
Time to register a firm	Total number of days required to register a firm	24	4	23	27.5	23.3
Cost to register a firm	% of income per capita	33.6	14.8	24.9	58.7	44.4

Source: World Bank Doing Business Indicators

The Uganda Registration Services Bureau (URSB) is mandated to register all businesses in Uganda (as well as patents and civil registration of deaths, births, marriages, etc.). The Competitiveness and Enterprise Development Programme, funded by the World Bank, supported URSB to create a one-stop shop for business registration and licensing, both physical and virtual.

LOCAL CAPABILITY-BUILDING

During our interviews with firms and the private sector, skills did not emerge as a key constraint in relation to the manufacturing sector. Many firms mentioned that Ugandan workers needed technical (mechanical, electrical) and sometimes managerial skills, but this was not the main concern of employers when discussing the problems affecting their business. This is likely because manufacturing firms usually train their workers on the job.

Beyond shop floor workers skills, technical and managerial skills remain the main gap in the market. Skills are in high demand on the Ugandan job market, and technical and vocational training institutions are not providing them in adequate numbers, as highlighted by the Ministry of Gender, Labour and Social Development (MGLSD) Employment Diagnostics Analysis Report (2018). There exist several of vocational schools, both private and public. The Skilling Uganda Programme, led by the Ministry of Education and Sports and co-funded by development partners, aims to improve the vocational education and training offer.

An interesting initiative by GoU is the Uganda Industrial Research Institute (UIRI). UIRI works as an incubator to support small and medium enterprises (SMEs) to develop their products and bring them up to standard for industrial certification. The institute also makes available to firms its laboratories to develop, test and manufacture their products. Many small firms use its facilities on a rotating basis for food and other products. UIRI plays a key role in supporting skills development. The institute mainly works with micro and small enterprises, and has little focus on larger investment. While UIRI seems well equipped to perform its role, an evaluation has found that no firm has graduated from the incubator (infoDev, 2014).

Finally, it is worth mentioning the Uganda Development Corporation (UDC), the 'investment arm' of GoU, re-established in recent years after a period of closure. Established under MTIC, UDC is tasked to make long-term investments in strategic sectors to stimulate industrial and economic development, and to promote private sector growth. UDC's mandate covers manufacturing, and one of its recent initiatives is the Kiira Motors Corporation, working in partnership with Makerere University to design and manufacture vehicles. GoU has recently announced disbursements for this project, but production is not planned to start for a couple of years. So far, UDC has had little impact on the domestic manufacturing environment. Ambitious investment plans have been announced recently (Ojambo, 2019), which will hopefully yield results in the future.

SUPPORTIVE INFRASTRUCTURE PLANNING

Poor infrastructure often emerges as one of the key complaints in the private sector. GoU has emphasised the importance of infrastructure development for Uganda. This has translated into increased spending on infrastructure. As shown in Section 3.1, in recent years large sums of money have been allocated towards electrification of industrial parks and the development of supportive export infrastructure in export processing zones and industrial parks.

The results from infrastructure investment can take years to materialise. While electricity supply has improved in recent years, many still point at the cost of energy as a main concern.

Table 3. **Cost of electricity for selected countries, 2019**

Indicator	Uganda	Rwanda	Kenya	Tanzania
Cost (US$ cents per kWh)	17.10	13.90	21.50	12.30
Cost (% of income per capita)	7,513.60	2,083.30	685.9	775.2

Source: World Bank Doing Business Indicators

Transport infrastructure is particularly important for Uganda, given its landlocked position. In particular, the state of the transport corridors (especially the Northern Corridor, connecting Uganda to the port of Mombasa) and the ports themselves is important in determining the cost of production for Ugandan firms. In recent years, the ports' and corridors' performance has improved, given the upgrade of physical facilities (hard infrastructure) and of the regulations and trade facilitation mechanisms (soft infrastructure).

Table 4. **Export and import times, 2018**

	Uganda	Kenya	Tanzania
Port and airport supply chains			
Export time (days)	3	3	4
Import time (days)	14	4	4
Land supply chain			
Export time (days)	5	4	7
Import time (days)	6	4	5

Notes: The (lead) time to import is the median time (the value for 50% of shipments) from the port of discharge to arrival at the consignee.
Source: World Bank Logistics Performance Indicators

Uganda has fewer roads in relation to its size than Kenya and Rwanda (Calabrese et al., 2017b). The poor state of the roads is still seen as a constraint by Ugandan firms, which face a disadvantage compared with their regional neighbours. The road and transport network is the responsibility of the

Ministry of Works and Transport (MoWT) and the Uganda National Roads Authority (UNRA). Some firms we interviewed noted that, in addition to the challenges faced in transporting products and materials, on bad weather days workers experience difficulties reaching their workplaces, given the poor state of the roads.

The problems with the road network affect not only the transport corridors but also the planned industrial zones and free zones. According to our interview findings, Namanve Industrial Park and the industrial areas around Kampala do not have adequate transport infrastructure. The multi-company free zones should offer good infrastructure, but some will be privately built, and it is not clear how their infrastructure offer will be regulated and monitored. Some of these zones are in areas that are not well connected to the main road network, which could make them less attractive to investors.

At the regional level there is a plan to develop an SGR network, which is expected to ensure faster, cheaper and more reliable transportation. As with all the projects that have a regional breadth, though, Uganda is in a subordinate position, as it relies on decisions taken and progress achieved by Kenya. Similarly, decisions taken by the Kenya Ports Authority (KPA) in terms of infrastructure and trade facilitation affect Uganda's businesses, but Uganda has little leverage to influence these processes.

It is important to keep in mind that in order to support manufacturing, infrastructure needs to be planned strategically. Generic investment in energy and transport infrastructure may be useful to the country as a whole, but may not support manufacturing. For example, the recently built Kampala–Entebbe expressway improves transit from the capital city to the airport, but it is not clearly linked to improved productive capacity (Calabrese, 2019).

LEARNING WITH THE PRIVATE SECTOR

In Uganda, the private sector has been very active in many sectors of the economy, though the limited government support has translated into partial success in some subsectors, including manufacturing. There are several private sector associations in the country, some of which are active in manufacturing. The capacity of these to conduct policy advocacy differs based on their resources and leadership.

The umbrella organisation for the private sector is the Private Sector Foundation Uganda (PSFU), whose membership base includes firms and other associations (around 150 out of 200 members are associations; the rest are private firms). PSFU is mandated to advocate with GoU on behalf of the private sector. It also runs (part of) some support programmes, such as the Competitiveness and Enterprise Development Project funded by the World Bank. PSFU is well embedded in most policy and consultative mechanisms involving the private sector, and is very active in implementing government policies.

The Uganda National Chamber of Commerce and Industry (UNCCI) is one of the oldest private sector associations in the country. As the name suggests, its scope is broad, including businesses in all sectors. Membership of the chamber used to be mandatory for businesses in Uganda (hence the high number of members, which is in the order of thousands), but this was scrapped to ensure independence of the chamber. However, few members are active and, since nowadays the chamber relies on members' fees to fund its activities, voluntary membership implies a lower fund base. At the time of our interviews, UNCCI had only around a dozen staff.

Finally, the Uganda Manufacturers Association (UMA) represents manufacturers and part of the services sector. UMA raises funds through membership fees and through the annual trade fair held at the Lugogo showground, which attracts many firms and visitors every year.[9] UMA is quite active in its advocacy role

[9] The number of firms participating in the fair increased from 220 in 1993 to 1,300 in 2018 (Ajaegbu, 2014; Businge, 2018).

with GoU, and it is considered the most influential private sector association in the country (Kjær and Katusiimeh, 2012).

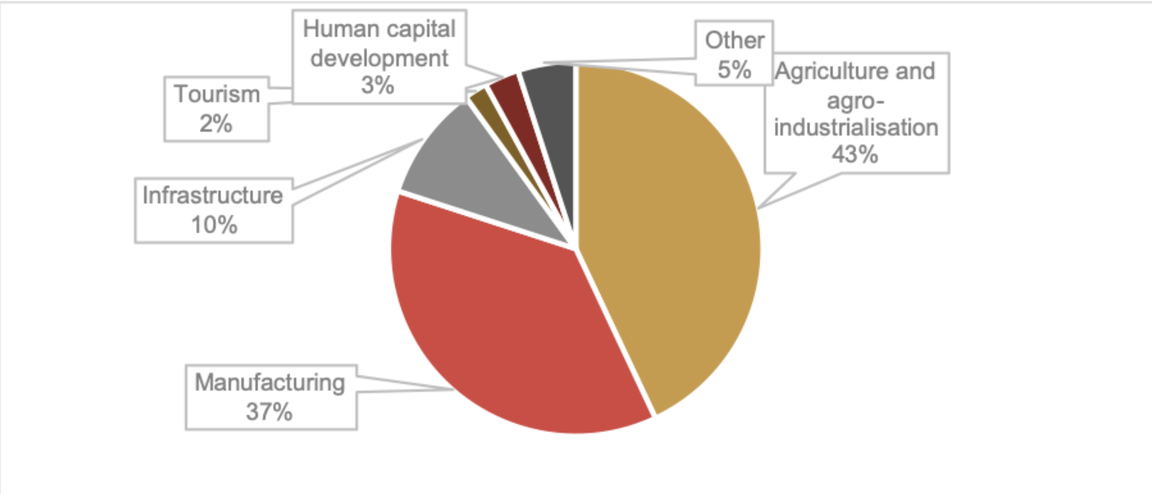
In addition to the associations, larger firms in the private sector usually have the ear of the government. For example, when facing discriminatory treatment in the East African market, large firms usually have access to MTIC, or the Ministry of East African Community Affairs. While this mechanism is very direct, the outcome is uncertain. Similarly, resolutions undertaken at the PIRT or within the Presidential Economic Council (another consultative mechanism between the president and the private sector) are unclear in terms of their effectiveness.

SELECTIVE, CONDITIONAL SUPPORT TO BUILD FIRMS' CAPABILITIES, INCLUDING FINANCE

Among the main challenges highlighted by firms in our interviews was the high cost of capital, with interest rates reaching 25%. Many firms also face cash flow problems, especially when supplying GoU. In some instances, GoU has been known to pay suppliers months or years later than the agreed date.

At the time of our interviews there were no official financial mechanisms dedicated exclusively to manufacturing. In theory, the Uganda Development Bank (UDB) should cover this role. UDB is a government-owned bank mandated to support commercially viable investment with a longer-term horizon – which commercial banks are reluctant to do. UDB provides finance at a rate that is lower than the market rate. Its priority sectors are agriculture, tourism, manufacturing, infrastructure, human capital development and extractives. UDB offers finance in various forms: loans, trade financing, equity investment and bank guarantees (UDB, 2019). In 2018, the bulk of the approved projects were in agriculture, agro-processing and manufacturing, as Figure 8 shows.

Figure 8. UDB approved projects by sector, 2018



Source: UDB (2019)

UDB's gross loan portfolio increased from USh 183 billion ($49 million) in 2016 to 309 billion ($83 million) in 2018 (UDB, 2019). Given the favourable conditions offered, UDB loans are in high demand, and there is a backlog of projects to be approved. At the time of our interviews, USh 500 billion promised by GoU had not yet been disbursed.

The World Bank currently funds a matching grant facility under the Competitiveness and Enterprise Development Programme, managed by PSFU. This facility provides matching grants to firms in the formal sector.[10] The grants do not cover manufacturing, but do provide support to firms involved in

[10] For more information see http://www.cedp.go.ug/matching-grant-facility/ [accessed 15 August 2019].

commercial agriculture and agribusiness. Finally, the East African Development Bank, headquartered in Kampala, seems to have a very limited role, if any at all, in financing manufacturing projects.

3.3. Summary of the resulting outlook

This section has analysed the framework for the industrial sector in Uganda, and discussed the functions that are necessary to support industrialisation. It has shown that industrialisation in Uganda is mostly thought of as value addition to domestic inputs, rather than in the broader value chain context. This is prompted by preoccupations around high trade costs, and by the desire to reduce imports in order to improve the trade balance.

The main challenge highlighted is the lack of resources allocated to industrialisation in Uganda. The line ministry is relatively small and underfunded, and prioritises the trade portfolio over industrialisation. While industrialisation is emphasised in many policy documents, this focus does not seem to be adequately reflected in the budget. Financial support to industrialisation is scattered under various areas crucial to the development of an industrial sector (infrastructure building, skills development, etc), but this does not allow for coordination of efforts.

The main challenges facing the private sector include inadequate infrastructure, high trade costs, lack of effective investment facilitation and aftercare. New solutions, such as the establishment of free zones, have achieved limited results so far. There exist private sector champions that can support entrepreneurs interested in manufacturing and broader industrial activities, but with limited government support to the industrialisation agenda their work can only go so far.

Table 5. **The industrial policy regime**

Functional area	What performance should we expect	Organisations, entities responsible	Basic information on entities	How do they perform in practice	Strengths/ weaknesses/gaps
Quality industrial policy process	Robust, inclusive process of formulating and implementing industrial strategies.	• MTIC • MoFPED	• MTIC is small and has limited funding. • MoFPED controls budget allocation.	• MTIC has the technical knowledge of the sector but has limited financial and human capacity. • MoFPED is responsible for policies and budget allocation but does not have technical expertise on manufacturing.	• Large number of policies drafted but not implemented owing to lack of financial resources and poor coordination among government agencies.
Conducive trade rules and trade facilitation (including corridors)	• Sound tariff regime. • Active support for exporters. • Developing trade standards. • Efficient port procedures.	• MTIC • EPB • UNBS • Uganda Revenue Authority • KPA • Tanzania Ports Authority		• The trade department at MTIC is better resourced than the industry and MSMEs departments. • UNBS has limited focus on export products. • Kenya and Tanzania Ports Authority are not under GoU's influence.	• The customs duties regime (under revision) is satisfactory, although it is not thoroughly implemented. • Export promotion and support to exporters are limited. • Trade facilitation procedures have improved, but there is work to do; some of these processes are beyond Uganda's immediate control.

Functional area	What performance should we expect	Organisations, entities responsible	Basic information on entities	How do they perform in practice	Strengths/ weaknesses/gaps
Provision and regulation of special economic zones, industrial clusters or hubs (including the required infrastructure and skills)	• Efficient legislation. • Coordinated and speedy action around zones.	• UIA • UFZA	UIA is very small compared with its needs.	• UIA provides very limited investment promotion services and aftercare. • UFZA has been in place for several years and has strong plans in place but has achieved limited results so far.	• Lack of experience in investment promotion and aftercare. • Limited human resources and financial capacity. • UFZA: extensive and careful planning but limited implementation.
Effective investment facilitation, including aftercare	• Identification of suitable investors. • Active engagement with firms. • Supporting firms in-country.	• UIA • URSB	See above	UIA provides very limited investment promotion services and aftercare.	• Working on a reactive rather than proactive basis.
Local capability building (for local content or national capability acquisition)		• Ministry of Education and Sports • UIRI • Private sector • UDC	UIRI: small, limited funding.	Limited outreach of UIRI owing to human resources and financial constraints.	• Most training is done on the job. • Lack of managerial and technical skills. • UIRI: focus on MSMEs.

Functional area	What performance should we expect	Organisations, entities responsible	Basic information on entities	How do they perform in practice	Strengths/ weaknesses/gaps
Supportive infrastructure planning	• Prioritisation of infrastructure needs of manufacturers. • Efficient port/airport handling.	• MoWT; UNRA • Ministry of Energy and Mineral Development • UIA; UFZA • Government of Kenya, Government of Tanzania		• Infrastructure is a government priority but it is unclear whether this is strategically targeted to manufacturing, • UIA and UFZA are not effective in providing/coordinating provision of infrastructure to industrial areas.	• Inadequate state of basic infrastructure (road network, electricity). • Limited provision of strategic infrastructure for manufacturing sector. • Some regional infrastructure projects are beyond Uganda's immediate control.
Learning with the private sector to address initial and emerging constraints	• Trust-based relationships, feedback mechanisms. • Mechanisms that hold government to commitments.	• PSFU • UNCCI • UMA • PIRT • Presidential Economic Council • Private sector	• PSFU: relatively large, receiving external funding. • UNCCI: small and self-financed. • UMA: small and self-financed.	• All private sector associations seem satisfied with the access they get to GoU officials. • PSFU and UMA are active in their advocacy role. • PIRT and PEC offer access to the president but their effectiveness is limited and focused on selected subsectors.	• Limited accountability mechanisms. • PIRT and PEC based mostly on *ad hoc* mechanisms.
Selective, conditional support to building firm capabilities (including finance)	• Banking system that supports industrial priorities. • Mechanisms that hold firms to commitments.	• UDB • Matching Grants Facility • Development finance institutions	All of these institutions have limited funding to disburse.		• Limited funding. • Lack of strategic sector orientation and no specific commitment towards manufacturing.

4. PRIVATE SECTOR INTERESTS AND CAPABILITIES

4.1. The current landscape

The Uganda manufacturing sector is dominated by agro-processing, food and beverages, household products, construction materials and fast-moving consumer goods. Subsectors that have experienced the highest level of growth in recent years include (i) paper, publishing and printing; (ii) chemical products; and (iii) furniture manufacturing (AfDB, 2014). In employment terms, the manufacturing sector is dominated by SMEs (the majority of firms have between five and nine workers, more than half of which are in Kampala and in the Central region) (Obwona et al., 2014).

Most of the manufactured products produced in Uganda are aimed at domestic consumption, and exports are limited to the regional markets (which include Rwanda, Burundi, South Sudan, eastern DRC and the regions of Kenya and Tanzania bordering Uganda). In this sense, Uganda has taken advantage of the high transport costs of these poorly connected countries, using these costs as a natural protection for producers. Regional markets have become increasingly important export destinations for Uganda, in terms of both manufactured and primary products.[11] European and Asian countries, on the other hand, mostly import raw, unprocessed primary products and natural resources. This is reflected in the composition of Uganda's exports, which have gone from being almost exclusively composed of agricultural products to include more processed food and non-food products.

Both foreign and domestic firms invest in manufacturing in Uganda. The majority of firms involved in manufacturing are owned by Ugandans. The Census of Business Establishment conducted in 2010/11 by the Uganda Bureau of Statistics (UBOS) shows that Ugandans owned 98% of the 30,000 manufacturing business surveyed (most of which were micro and small).

The sector sees the presence of several Ugandan firms, and of a handful of large Ugandan–Asian conglomerates, which tend to have very diversified investment ranging from agriculture to manufacturing to services. Domestic firms have been very active and dynamic in the face of an extremely challenging environment. Several of our interviewees said their own manufacturing business was not profitable, and many of them were considering closing down. However, UMA interviewees said membership had been stable during the years; for every member dropping out a new one had joined the association.

Foreign firms are also investing in manufacturing in Uganda. Using data drawn from a Bank of Uganda private investment survey, Obwona et al. (2014) reveal a non-negligible number of wholly foreign-owned companies or joint ventures with a majority of foreign capital in a variety of sectors.[12] Many of the foreign firms operating in the manufacturing sector in Uganda are from the East African region. Several Kenyan firms have set up shop in Uganda to cater to the domestic market. One example is Bidco Africa, producing food and households products in a factory in the Jinja industrial area (McKinsey Global Institute, 2016).

Investors from Organisation for Economic Co-operation and Development (OECD) countries seem to have limited presence in the manufacturing space. During our interviews, we met with a textile and garment firm whose largest shareholder was a British national (and the second largest was a Kenyan), and with a South Korean firm engaged in (importing and) producing furniture, construction materials and packaging, among other things. However, many foreign firms are from emerging markets. South Asian firms are traditionally strong because of the historic connections with Uganda. Chinese firms are also emerging as new players in several sectors, including construction materials.

[11] Uganda also re-exports some of its imports, such as motor vehicle spare parts and other products. These re-exported goods supply the Rwandan, Burundian, eastern DRC and South Sudan markets.

[12] According to Obwona et al. (2014), this indicates UIA's bias in favour of foreign firms.

Government 'buy-in' is often key to the success of a business. We interviewed representatives of an exporting firm, who pointed to the importance of support from the president. Although interviewees were still waiting for delivery on some promised policies (e.g. lower electricity rates), they stressed the continuous support they received from the top levels of GoU.

According to Selassie (2008), domestic manufacturing firms have grown without government intervention. However, our interviews revealed that many companies had a connection to GoU in the form of procurement or other relationships. In an economy as small as that of Uganda, the government is usually the largest buyer, and many producers and retailers offer the possibility of branding products with government logos, for example.

Domestic firms also face challenges linked to innovation. We interviewed a firm trying to assemble and customise motorbikes for the Ugandan market. This firm was struggling to keep the cost in line with imported products, and was trying to improve its goods according to market needs. This may require additional expertise that international investors can provide.

4.2. Potential investors

While high costs of transport have provided an opportunity to develop the manufacturing sector in Uganda, these also negatively affect the sector. The cost of inputs is extremely high, and, since goods are imported either through the port of Dar es Salaam or (more often) through Mombasa, transport times exceed those of the coastal countries by a few days, on both the inbound and the outbound route. For traditional GVC-type products, Uganda is at a disadvantage compared with Kenya and Tanzania.

However, Uganda is well placed to service the regional markets. The important thing is not to rely on the protection offered by the high transport costs, which is bound to disappear sooner or later, but to increase efficiency in domestic production. Eastern DRC, Rwanda, Burundi, northern Tanzania and South Sudan, as well as the western side of Kenya, constitute a great market opportunity for Ugandan products. The regional market provides opportunities for domestic and international investors alike. Partnerships between domestic and international firms could transfer the knowledge and technical/managerial skills that are said to be lacking.

As far as foreign investors are concerned, European and US investors have shown little interest, or little capacity to operate, in the Ugandan manufacturing sector. There are many anecdotes about firms scoping the market but not being able to go beyond the exploration stages, as they have found it difficult to navigate the Ugandan business environment. For these firms, it may be easier to work in agribusiness and agro-processing, where larger players and international firms are already present.

Emerging markets' investors, on the other hand, are currently more active in the manufacturing space. These investors show willingness to navigate the Ugandan landscape. Therefore, these may be more likely sources of investment in the coming years. These investors have the advantage of being well embedded in GVCs, having both the connection to the international brands and buyers and the ability to operate in developing countries.

Uganda's abundant workforce lends itself to the production of labour-intensive goods, which also need to be of very high value for a small volume, to keep down transport costs, and require low levels of energy to be produced. Therefore, with improved infrastructure to lower transport and energy costs, Uganda could participate in GVCs.

Another opportunity for Uganda is to take part in regional value chains. There are examples of firms from other countries in the region (e.g. Kenya) investing in Uganda. For example, one textiles and garment firm we interviewed supplied its products to customers in the EU and the US but also to Kenya.

However, regional value chains are still uncommon. In the future, there may be some space for regional division of labour, with both domestic and regional investors potentially motivated to invest in Uganda to export elsewhere.

The main constraint to the development of a thriving industrial sector seems to be lack of commitment by GoU, which does not follow up on its declarations with actions. This is true for the provision of subsidised energy to manufactures as well as the management of Namanve Industrial Park.

Finally, a word needs to be added about development finance institutions (DFIs). These are able to provide the long-term finance that is necessary for manufacturing projects. The DFIs can also provide technical assistance to ensure companies are ready to make good use of the finance received. This could be targeted to domestic investors, alone or in partnership with foreign investors.

4.3. Summary of the resulting outlook

The potential of the Ugandan manufacturing sector may not critically depend on OECD investors. Instead, there is a need to open up the space to increased investment from emerging markets (e.g. from China), potentially in conjunction with domestic investment. As mentioned in Section 3, the president has been quite active in this area, trying to encourage investors from China and India to get interested in Uganda. There is also a need to involve institutions that could provide finance, especially to promising domestic investment.

Attention needs to be paid to the subsectors/type of products, which need either to be suited to the domestic and regional market or to entail enough value addition to offset high costs of transport. In this sense, the attention to value addition to domestically produced products seems limiting, as it allows exploration only of sectors that can use domestic inputs. Uganda could do more, especially in terms of participating in GVCs, by producing higher-value products (rather than high-volume, low-value goods).

5. POLICY MEASURES TO SUPPORT INDUSTRIALISATION IN UGANDA

The previous sections have shown that several problems hinder development of the manufacturing sector in Uganda. The issue remains the limited ability of GoU to fund, coordinate and manage support to the manufacturing sector, despite statements made President Museveni and government officials. In recent years, there have been signals of increased attention towards industrialisation, but these are yet to show real progress. This challenge is mainly domestic in nature, and external assistance may influence it only to a limited extent.

Another area of concern is the narrow focus on value addition to domestic inputs. This seems partially and rightly motivated by a concern for high transport costs, but also largely based on a desire to improve the trade balance by reducing imports, veering towards an import substitution model. While this could be a way to promote the development of a domestic industrial sector, we do not see a concurrent improvement in the areas that could support manufacturers, such as improved transport infrastructure, lower electricity costs, targeted investment promotion and aftercare.

Another challenge relates to the lack of accountability mechanisms to ensure GoU delivers on commitments made to manufacturers. The private sector has relatively strong ability to advocate for policy change but very little leverage to hold GoU accountable. Until GoU makes good on its claims that industrialisation is important for Uganda, pathways for development of the industrial sector remain limited. However, there is space to work with the private sector, and with the government agencies that are directly involved in promoting and facilitating investment in the sectors of interest. The Ugandan manufacturing sector has seen some successes within the current framework. This suggests that support should be directed to the private sector and to implementing institutions working closely with firms, rather than targeting the broader policy framework.

Assistance should therefore focus on areas where results can be achieved through targeted actions with key players. The areas where external intervention could work include:

- Improving infrastructure for manufacturing. Infrastructure constitutes the main challenge to the development of the manufacturing sector, and GoU is keen on improving this. Support could be provided to agencies that work on investment to design, plan and advocate for the development of strategic infrastructure and for their dialogue with the private sector on infrastructure-related matters.
- Improving investment promotion, facilitation and aftercare.
- Supporting access to finance. Improving access to finance will be critical, as this is one of the challenges facing firms. A targeted approach could be used to identify sources of investment in the manufacturing sector, through match-making and participation of DFIs.
- Building capacity of the private sector where specific gaps are present, such as technical and managerial skills.

GoU has many programmes in place, none of which specifically targets the industrial sector. These include programmes supported by development partners:

- The Competitiveness and Enterprise Development Project is funded by the World Bank and aims to support enterprise capacity development and investment climate reforms in Uganda. This programme works in four main areas: business licensing and registration reform (described in Section 3); land administration reforms; tourism development; and the Matching Grant Facility (described in Section 3).
- The Skilling Uganda Programme, aimed at developing technical skills, is run by the Ministry of Education and Sport.

Development partners provide support to the Ugandan private sector. For example, the UK Department for International Development (DFID) is providing support to the industrialisation agenda by funding (fully or partially) TradeMark East Africa, Supporting India's Trade Preferences for Africa (SITA), Northern Uganda: Transforming the Environment through Climate-Smart Agribusiness (NU-TEC) and the Msingi programme.

Based on our findings, a programme to support industrialisation in Uganda could be articulated around three main components:

1) support to the domestic private sector, to be able to work with international firms and clients
2) support to the international private sector, to identify investment opportunities in Uganda and to be able to turn these opportunities into profitable manufacturing businesses, closely anchored to the Ugandan economy and
3) support to a few selected government institutions to be able to undertake (1) and (2) autonomously.

In the short term, activities can include:

Improving infrastructure for manufacturing

Poor infrastructure and the high cost of power are the main challenges currently affecting the manufacturing sector in Uganda. Improving the capacity of government institutions to plan and advocate for more strategic choices in terms of infrastructure for the manufacturing sector is a crucial step. A study could be undertaken to assess the problems related to infrastructure that firms face and to identify solutions (e.g. strategic planning of industrial parks and focused and methodical implementation of laid-out plans, incentives to firms in terms of use of infrastructure, cost of utilities, etc.).

Improving investment promotion, facilitation and aftercare

The institutions tasked with attracting investors (UIA, and for the free zones also UFZA) should improve their ability to conduct investment promotion and aftercare, and should be able to strategise more. Priority interventions should include:

- Undertake studies to assess what type of investments and products to be prioritised. This should be done strategically, keeping a strict focus on the manufacturing sector. These studies could identify some key groups of investors (e.g. Chinese, Indian) to understand what would it take to attract them to invest in Uganda in specific sectors.
- Second officers of investment promotion institutions to similar institutions in other countries for a period of one to three months. Many officers in these institutions have worked only in Uganda, and would benefit from experiencing a different working environment and approach to investment promotion. It is recommended that secondment be carried out in countries similar to Uganda (possibly in Africa) that have experience building successful investment promotion agencies.
- Develop the proactive element of investment promotion. This could include the creation of 'investment seekers' that look to link domestic firms with foreign investors and/or pitch directly investors worldwide.

Supporting access to finance for firms

- Design match-making programme to match firms currently interested in investing in Uganda with domestic firms that require capital and skills. This programme could be implemented with the support of a private sector institutions such as UMA.
- Facilitate meetings between DFIs and other finance institutions, and domestic firms (with or without the presence of GoU).

Building capacity of the private sector where specific skill gaps are present

Focus on the delivery of technical and managerial skills.

In the longer term, interventions should include:

Improving infrastructure for manufacturing

The programme could provide technical assistance to UIA and UFZA to (i) improve their planning in terms of infrastructure and (ii) design incentives structure for firms to offset the high costs of production.

Improving investment promotion, facilitation and aftercare

- Provide technical assistance to UIA and UFZA to improve their investment promotion and aftercare activities. In particular, focus on the strategic investment sectors identified during the previous phase.
- Offer technical assistance to improve export promotion activities.

Supporting access to finance for firms

Implement the match-making programme discussed above in a strategic manner – that is, prioritising key investors and sectors.

Building capacity of the private sector where specific skill gaps are present

Facilitate public–private dialogue to design training programmes (on the job or in training schools) that respond to the needs of the private sector. UMA and UNCCI could facilitate this work.

6. CONCLUDING REMARKS

The limited growth of the Ugandan industrial sector, and the stagnation of its manufacturing segment, can be attributed to many factors, including the limited support provided by GoU. While GoU expresses interest in the industrial sector, this has mostly remained at the level of declarations and encouragement to investors, and has not been translated into a clear action plan with financial commitments.

Given Uganda's landlocked position, and because of a focus on improving the trade balance, strategies to support the manufacturing sector have focused on value addition to domestic inputs. In terms of government policies, MTIC lacks the human and financial resources to push the industrialisation agenda and MoFPED does not have the technical expertise required. UIA and UFZA focus only on some areas, and cannot coordinate the industrial policy process. Policies, strategies and institutions for industrialisation are not adequately funded, managed and coordinated. GoU has focused on creating a stable macroeconomic environment but has not determined strategic priorities to pursue. This has resulted in an industrialisation process that is largely spontaneous and private sector-led.

The Uganda manufacturing sector is dominated by agro-processing, food and beverages, household products, construction materials and fast-moving consumer goods. The sector is crowded by SMEs producing for domestic consumption, and exports are limited to the regional markets. The main challenges facing Ugandan and foreign manufacturers include high costs of infrastructure, lack of technical and managerial skills and lack of finance, especially in terms of longer-term financing.

There are opportunities for interventions to promote investment in the manufacturing sector and to overcome the challenges mentioned above. We suggest aligning the interventions along four main lines:

- Improving infrastructure for manufacturing. This entails improving the capacity of government institutions to plan, advocate for and enact more strategic choices in terms of infrastructure for the manufacturing sector.
- Investment promotion, facilitation and aftercare; and export promotion. This could include developing a strategic and targeted approach to investment promotion, and building the capacity of GoU in this area.
- Supporting firms' access to finance through the promotion of strategic foreign investment and match-making between firms, but also through the facilitation of investment by DFIs and other financial institutions.
- Building the capacity of the private sector. This entails providing scarce skills (mostly higher-technical and managerial skills) and facilitating public–private dialogue to design training programmes (on the job or in training schools) that respond to the needs of the private sector.

A realistic support to the Ugandan manufacturing sector would need to avoid overreliance on OECD investors. Instead, there is need to open up the space to increased emerging markets' investment (e.g. from China), in conjunction with domestic investment. Attention must be paid to the subsectors/type of products, which need either to be suited to the domestic and regional market or to entail enough value addition to offset the high costs of transport.

REFERENCES

AfDB – African Development Bank (2014) *Eastern Africa's manufacturing sector: promoting technology, innovation, productivity and linkages.* Uganda Country Report. Tunis: AfDB

Ajaegbu, C. (2014) 'Promoting foreign direct investment (FDI): the case of Uganda' *International Journal of Research in Business Management* 73–94

Akileswaran, K., Calabrese, L. and Said, J. (2018) *Missing links for economic transformation: securing policy coherence in Eastern Africa.* London: Tony Blair Institute for Global Change

Balchin, N., Gelb, S., Kennan, J., Martin, H., te Velde, D. and Williams, C. (2016) *Developing export-based manufacturing in Sub-Saharan Africa.* London: ODI

Businge, J. (2018) '2018 trade fair excites'. *The Independent*, 16 October

Calabrese, L. (2019) *Making the Belt and Road Initiative work for Africa*. London: ODI

Calabrese, L. and Eberhard-Ruiz, A. (2016) 'What types of non-tariff barriers affect the East African Community?' Briefing Note. London: ODI

Calabrese, L., Balchin, N. and Mendez-Parra, M. (2017a) *The phase-out of second-hand clothing imports: what impact for Tanzania?* MPRA Paper 82175.

Calabrese, L., Gelb, S., and Hou, J. (2017b) *What drives Chinese outward manufacturing investment? A review of enabling factors in Africa and Asia*. London: ODI

EAC – East African Community (2014) *Trade report*. Arusha: EAC

Eberhard-Ruiz, A. and Calabrese, L. (2017) *Trade facilitation, transport costs and the price of trucking services in East Africa*. Working Paper 518. London: ODI

Hausmann, R., Cunningham, B., Matovu, J., Osier, R. and Wyett, K. (2014) *How should Uganda grow?* Working Paper 275. Cambridge MA: CID

infoDev (2014) *Uganda Industrial Research Institute – Uganda case study.* Washington DC: World Bank

Kjær, A.M. and Katusiimeh, M. (2012) *Growing but not transforming: fragmented ruling coalitions and economic developments in Uganda.* Working Paper 7. Copenhagen: DIIS

Ladu, I.M. (2016) 'The unending tale of Kampala Industrial and Business Park'. *Daily Monitor*, 19 January

McKinsey Global Institute (2016) *Lions on the move II: realising the potential of African economies.* London: McKinsey & Company

MGLSD – Ministry of Gender, Labour and Social Development (2018) *Employment diagnostics analysis report.* Kampala: MGLSD

MoFPED – Ministry of Finance, Planning and Economic Development (2017) *National Strategy for Private Sector Development: boosting investor confidence for enterprise development and industrialisation 2017/18-2021/22.* Kampala: MoFPED

MoFPED (2019a) *Budget speech 2019/20*: *industrialisation for job creation and shared prosperity.* Kampala: MoFPED

MoFPED (2019b) *Know your budget FY 2019/20: a citizen's guide to the budget for FY 2019/20*. Kampala: MoFPED

MTTI – Ministry of Trade, Tourism and Industry (2008) *National Industrial Policy: a framework for Uganda's transformation, competitiveness and prosperity*. Kampala: MTTI

New Vision (2019) 'Museveni commissions factories in Jinja, Buikwe'. 7 May. Available at: https://www.newvision.co.ug/new_vision/gallery/1499933/museveni-commissions-factories-jinja-buikwe (accessed 13 December 2019)

NPA – National Planning Authority (2014) *Harnessing the demographic dividend. Accelerating socioeconomic transformation in Uganda.* Kampala: NPA

NPA (2015) *Second National Development Plan (NDPII) 2015/16–2019/20*. Kampala: NPA

Obwona, M., Shinyekwa, I., Kiiza, J. and Hisali, E. (2014) *The evolution of industry in Uganda.* Learning to Compete Working Paper 9. Washington DC: Brookings Institute

Ojambo, F. (2019) 'Uganda plans $813 million industrial investment in next decade'. *Bloomberg*, 7 August

Page, J. (2014) *Industrial policy in practice: Africa's Presidential Investors' Advisory Councils.* Working Paper 117. Helsinki: UNU-WIDER

Selassie, A. (2008) *Beyond macroeconomic stability: the quest for industrialisation in Uganda.* Working Paper. Washington DC: IMF

SET – Supporting Economic Transformation (2108) *Five policy priorities to facilitate East African trade and investment*. London: ODI

Shinyekwa, I., Kiiza, J., Hisali, E. and Obwona, M. (2016) 'The evolution of industry in Uganda' in C. Newman, J. Page, J. Rand, A. Shimeles, M. Soderbom and F. Tarp (eds) *Manufacturing transformation: comparative studies of industrial development in Africa and emerging Asia*, pp.191-210. Oxford: Oxford University Press

Signe, L. (2017) '3 things to know about Africa's industrialization and the Continental Free Trade Area'. *Africa in Focus*. Washington DC: Brookings

State House of Uganda (2016) '"Electricity to come down to 5 US cents" – president to manufacturers'. 6 October. Available at: http://www.statehouse.go.ug/media/news/2016/10/06/%E2%80%9Celectricity-come-down-5-us-cents%E2%80%9D-%E2%80%93-president-manufacturers (accessed 13 December 2019)

The Independent (2019) 'Museveni: Uganda aiming for trade surplus worldwide'. 7 March.

The New Times (2017) 'Why manufacturers want regional CET regulations to be reviewed'. 10 January.

UBOS – Uganda Bureau of Statistics (2011) *Report on the Census of Business Establishment, 2010/11.* Kampala: UBOS

UDB – Uganda Development Bank (2019) '2018 annual report: accelerating socio-economic development through sustainable financial interventions'. Kampala: UDB

UNDP – United Nations Development Programme (2018) 'Uganda's draft National Industrial Development Policy validated'. Kampala: UNDP. Available at: www.ug.undp.org/content/uganda/en/home/presscenter/articles/2018/Ugandas_draft_National_Industrial_Development_Policy_validated.html (accessed 1 December 2019)

UFZA – Uganda Free Zones Authority (2018) 'Annual report for 2017/2018'. Kampala: UFZA

UIA – Uganda Investment Authority (2016) 'Investment incentives to free zones investors'. Kampala: UIA. Available at: https://www.ugandainvest.go.ug/wp-content/uploads/2016/03/Investment-incentives-to-free-zone-investors.pdf (accessed 12 August 2018)

Walter, M. (2019) *What is Uganda's employment challenge?* Kampala: Centre for Development Alternatives

Xinhua (2019) 'China boosts growth of Uganda's manufacturing sector: official'. Xinhuanet, 17 July. Available at: http://www.xinhuanet.com/english/2019-07/17/c_138235062.htm (accessed 12 August 2018)

ANNEX: THEMES OF BUDGET SPEECHES

Year	Title
2019/20	Industrialisation for Job Creation and Shared Prosperity
2018/19	Industrialisation for Job Creation and Shared Prosperity
2017/18	Industrialisation for Job Creation and Shared Prosperity
2016/17	Enhanced Productivity for Job Creation
2015/16	Maintaining Infrastructure Investment and Promoting Excellence in Public Service Delivery
2014/15	Maintaining the Momentum: Infrastructure Investment for Growth and Social Economic Transformation
2013/14	The Journey Continues: Towards Socio-Economic Transformation for Uganda
2012/13	Priorities for Renewed Economic Growth and Development
2011/12	Promoting Economic Growth, Job Creation and Improving Service Delivery
2010/11	Strategic Priorities to Accelerate Growth, Employment and Socio-Economic Transformation for Prosperity