THE POLITICAL ECONOMY OF **ECONOMIC TRANSFORMATION IN UGANDA**

A Case Study of Manufacturing

Frederick Golooba-Mutebi

FRIEDRICH EBERT STIFTUNG

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FOREWORD

Political Economy Analysis is probably the most practical tool to understand the interaction of political and economic processes in a society. By describing institutions, individual actors and societal forces it provides a vivid profile of the political settlement in a respective country or economic sector. By pinpointing the drivers and spoilers and their interactions such an interdisciplinary analysis of policies, regulations and campaigns provides for a realistic, dynamic and complex picture of what a government wants and what the public gets.

Under President Museveni the Government of Uganda has been committed to the goal of economic transformation for some time. Exposed to the forces of globalization and rapid population growth, there does not seem to be an alternative to economic transformation in general and industrialisation in particular. With the 2nd youngest population on the African continent Uganda has no time to waste in providing jobs for its young men and women through the swift modernisation of its economy; since the still prominent agriculture sector alone cannot provide the answers.

For these very reasons the Friedrich-Ebert-Stiftung (FES), Uganda Office, has commissioned this "Case study of Manufacturing" looking at the "Political Economy of Economic Transformation" in Uganda's most important sector.

In his sector-level analysis Frederick Golooba-Mutebi is applying the text-book elements of political economy by looking at power relations, service delivery, decision making, corruption, rent-seeking and implementation issues to finally expose the disconnect between plans and outcomes and make recommendations for the closing of that gap. With its suggestions and conclusions, his case study will be helpful to government ministries, intermediate institutions and donors alike.

Historically the discipline of Political Economy Analysis originated in the moral philosophy of Adam Smith and other thinkers of the 18th century. It was later side-lined by a technocratic and naïve belief in the rationality of economic actors which still reverberates in certain prescriptions and planning formulas suggested or applied by World Bank (WB), International Monetary Fund (IMF) and large international donors.

More recently the analysis of the political economy of a country, a sector or a specific problem has become a useful antidote to such one-dimensional economic thinking. It is in this context that Frederick Golooba-Mutebi's case study of the manufacturing sector provides a deeper insight into the political economy behind the initiatives and shortcomings of Uganda's attempts at economic transformation.

Rolf Paasch

Resident Representative
Friedrich-Ebert-Stiftung (FES), Uganda

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ABBREVIATIONS

BIT	Bilateral Investment Treaty
BUBU	Buy Uganda Build Uganda Policy
CSO	Civil Society Organisation
DP	Democratic Party
EAC	East African Community
EPB	Export Promotion Board
FDC	Forum for Democratic Change
LDC	Least Developed Countries
GDP	Gross Domestic Product
IMF	International Monetary Fund
MDAs	Ministries, Departments and Agencies
MoGLSD	Ministry of Gender, Labour and Social Development
MoFPED	Ministry of Finance Planning and Economic Development
MP	Member of Parliament
MSMEs	Micro, Small and Medium Enterprises
MoTIC	Ministry of Trade, Industry and Cooperatives
NGO	Non-Governmental Organisation
NIP	National Industrial Policy
NRM	National Resistance Movement
OWC	Operation Wealth Creation
PPDA	Public Procurement and Disposal of Public Assets Authority
UBOS	Uganda Bureau of Statistics
UDB	Uganda Development Bank
UDC	Uganda Development Corporation
UEPB	Uganda Export Promotion Board
UFZA	Uganda Free Zones Authority
UIA	Uganda Investment Authority
UIRI	Uganda Industrial Research Institute
UIRI	Uganda Industrial Research Institute
UNBS	Uganda National Bureau of Standards
UPC	Uganda People's Congress
URA	Uganda Revenue Authority
YLP	Youth Livelihood Programme
WB	World Bank

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This report would not have seen the light of day if the Friedrich-Ebert-Stiftung (FES) had not funded the research that informed its preparation. Nor would it have been possible to conduct the research without the cooperation of all the respondents that took time out of their busy schedules to share their knowledge, experiences and perspectives. Needless to say, neither the FES nor the respondents bear responsibility for the mistakes and shortcomings therein.

EXECUTIVE SUMMARY

The overall political climate in a country is crucial to determining the extent to which a state can deliver development. The political climate itself is the outcome of the prevailing political settlement. In Uganda, the settlement is a dominant-party and clientelist one, hardly suited to the pursuit and attainment of the government's ambitions regarding structural transformation. Nor is it amenable to external actors shaping its underlying incentive structure, a point of which those who seek to change or influence the status quo should be well aware.

This report explores the government's ambitions for structural transformation, focusing specifically on manufacturing. It highlights the government's efforts to promote manufacturing, and explores how these efforts shape and are shaped by the activities and conduct of different stakeholders. The report further identifies opportunities for and binding constraints to the development of the manufacturing sector, and recommends actions to strengthen and enhance its development.

This study is set against the background of how politics in Uganda is organized and practiced, and how parliament and other actors fit in. Parliament is relatively weak vis-à-vis the executive, with the latter possessing the means with which to determine and change its role whenever necessary. Civil society is also weak, subdued by mechanisms that the state is able to deploy to curtail the activities of civil society groups when the need arises. As such, civil society struggles to hold the state to account. That said, both the parliament and civil society can be effective where the state's core interests are not under threat by their activism, or when, in rare instances, their interests coincide.

Overall, the evolution of the political settlement and its drivers help one to understand the limitations of the state in Uganda as a promoter of manufacturing. A key feature of this evolution is the abandonment of the once consensus-driven "no-party" political system and the return to multi-party competition based on a winner-takes-all principle. Party politics has not strengthened political parties as mechanisms for holding the government to account. In fact, has created an environment in which winning elections and retaining power is arguably the highest priority for the NRM government. This has had implications for policy formulation and implementation and explains to a large extent why so many good policies suffer implementation failure.

The government recognizes the importance of manufacturing to economic growth because of its potential for value addition and because manufacturing has been a key factor in the development and transformation of once-backward societies. Manufacturing, therefore, is at the centre of the government's ambitions for economic and social transformation. There are also political reasons for seeking to promote manufacturing: 78 percent of the population is below the age of 30, the majority are unemployed and, therefore, a potential source of political destabilization given the high levels of poverty. It is hoped that manufacturing will come in handy as a tool for fighting unemployment.

In recent years, manufacturing has contributed only between 23 and 27 percent to GDP. Many factories produce below scale. SMEs dominate the sector, accounting for over 90 percent of all establishments. Altogether, the sector is still small and produces mainly low-value-added products. Heavy investments are mainly by foreign companies, especially in textiles, steel, cement and food processing. There is very little capital goods manufacturing, and manufacturers are high-cost producers. However, within the EAC, Uganda performs relatively well.

There are numerous movers and shakers in the sector, including the Ministry of Trade, Industry and Cooperatives, which is mandated to spearhead the industrial development agenda and is responsible for implementing the National Industrial Policy. Implementation, however, has been a challenge. In this regard, a key constraint has been the lack of capacity in terms of both human and financial resources. Under the Ministry, there are a number of agencies charged with playing a role in supporting the government's manufacturing agenda. They, too, however, are limited by several challenges in how much they can do.

The Ministry of Finance, Planning and Economic Development (MoFPED), with its policy-making role in the economic sector, has a strong interest in industrialization and is responsible for the legal framework for investment. Its control over budget allocations allows it to play a significant role in setting national priorities and determining the level of support any national agenda receives. That the Ministry provides inadequate funding to entities concerned with industrialization speaks volumes about the degree to which industrialization is a priority in practice.

The Uganda Development Corporation (UDC) is supposed to be the government's investment arm. So far it has had little impact on manufacturing, not least because of its many politically-driven investments and underfunding. The Uganda Investment Authority (UIA) aims to promote investment by local and foreign investors alike. However, it has also been constrained by challenges in implementation stemming from poor coordination and lack of capacity due to underfunding and understaffing. Meanwhile, the Uganda Development Bank (UDB), which should play a role in financing manufacturing at lower interest rates than do commercial banks, is also underfunded, which has rendered the availability of affordable credit a difficult proposition. Necessary funding promised by the President has not materialized because of the tightness of the national budget and because resources are committed in advance to higher priorities.

The Uganda Manufacturers' Association (UMA) – the prime advocacy body for the industrial and manufacturing communities – has played a critical role in promoting and protecting the interests of manufacturers. This had led to some gains in the areas of taxation, local content prioritization, and growing the local market for their goods. Despite these successes, however, UMA's influence on the government and even on some of its members has waned somewhat. This is because of the entry into manufacturing by foreign investors who have chosen not to be members of the UMA, and because some local members are able to take their issues directly to the President, thereby bypassing the Association.

The Uganda Industrial Research Institute (UIRI) is the leading tertiary education institution in the application of science to industry, for purposes of facilitating rapid industrialization. Its core activities are research and development and designing prototypes. It is also an incubation hub that houses budding manufacturers to help them develop their concepts. It, too, however, has been curtailed in its efforts by human and financial resource challenges, as well as some level of mismanagement.

The Uganda National Bureau of Standards (UNBS) is mandated to develop standards and certification for manufactured products and also enforce them. It has registered some successes in driving up standards. It, too, however, lacks adequate funding and personnel. This has hampered Uganda's participation in global value chains.

Besides institutional movers and shakers, there are also individuals who play a significant role in impacting Uganda's manufacturing potential – the leading one being President Museveni. The president has long been an advocate for manufacturing, even when donors were preoccupied with the social sectors and poverty reduction. His interest in manufacturing has produced many gains because of his personal intervention. But in this also lies possibilities for destructive interference in the work of government ministries, departments and agencies, which is not at all helpful to the cause of driving the industrialization agenda. The same can be said about his brother, General Caleb Akandwanaho, aka Salim Saleh. He, too, has put his enormous influence to good use on behalf of manufacturers. But in so doing, he has also undermined the work and authority of government entities by marginalizing them.

Although over 90 percent of manufacturing concerns are owned by Ugandans, the large entities with diversified portfolios are foreign owned. Foreign investors have, therefore, played key roles in advancing the government's manufacturing agenda by, among other things, producing for export markets.

Unemployed youth have been important players in as far as their growing numbers, the slow rate of job creation and the resulting high levels of unemployment pose a threat to political stability. In this regard, they have spurred the government into paying attention to manufacturing as a critical employment creation strategy.

There are also many spoilers, real and potential, that impact economic transformation. They include poor implementation of policies and strategies, prioritization of more immediately important (usually political) matters, and inadequate resource allocation to government entities with designated roles in the national industrialization agenda. Also, 85 per cent of locally manufactured goods are sold in Uganda. In general, however, manufacturers are now targeting regional markets, as the region is believed to be Uganda's "natural market". Given the history of political instability and inter-state tensions, however, this could be a risky strategy. The collapse of South Sudan into violent conflict in 2013 and tensions between Uganda and Rwanda of late, illustrate the level of risk.

Another spoiler is that Uganda has a thin skills base, with a small number of scientists and engineers. Tertiary institutions are not producing the right kind of skills in the right quantities for industry. Moreover, attitudes towards vocational education are also a problem insofar as they prevent the production of people with practical skills for industry. The disconnect between educational institutions and industry means that, for the most part, the skills being produced are not of the right kind.

Corruption is a spoiler in that it poses an obstacle to would-be industrialists seeking services from public and private entities. There is also the issue of raw materials. Uganda could best industrialise based on easily available raw materials, mainly agricultural, given it is an agricultural country. But challenges in the agricultural sector rule this out. Furthermore, cheap imports from Asia and neighbouring countries that manufacture more competitively are also spoilers for emergent industries.

To reverse this situation, government must take decisive measures, including improving its implementation capacity; enforcing anti-corruption measures; adequately funding MDAs; investing in skills development; improving access to affordable financing for manufacturers; and plugging capacity gaps across its entities charged with driving the country's industrialization/manufacturing ambitions.

1.0. INTRODUCTION

The overall political climate in a country is a key factor in determining the extent to which the state is able to deliver development.[1] The political climate in a country is the outcome of the prevailing political settlement, which essentially defines how the rules of the game were arrived at, and how they shape the organisation and practice of politics.[2] The current political settlement in Uganda is a dominant-party and clientelist settlement. In general terms, this political settlement is seen as inconducive to the pursuit and attainment of the government's ambitions of structural transformation. Further, it is unamenable to external actors shaping its underlying incentive structure (Barkan 2011, Kjaer & Therkildsen, 2012; Golooba-Mutebi & Hickey, 2016), a point of which those who seek to change or influence the status quo should be well aware. Using a political economy lens, this report explores the government's ambitions for structural transformation, focusing on industrialisation, and specifically on manufacturing; and questions how they have been impacted by the organisation and practice of politics.

Promoting manufacturing is particularly critical for Uganda. There has been a rise in the contribution of manufacturing and services to GDP growth, with manufactured goods comprising a growing percentage of exports. However, Uganda still derives a substantial portion of its foreign exchange earnings from the export of unprocessed products. Continued growth in manufactured exports would therefore contribute directly to diversifying Uganda's exports and reducing its vulnerability to volatilities on the commodity market. This report highlights the efforts the government has made to promote manufacturing and how they shape and are shaped by the activities and conduct of different stakeholders; identifies opportunities for, and binding impediments to, the development of the manufacturing sector; and recommends actions to strengthen and enhance its development.

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1 *This is the broad message that emerges out of the work of research consortia such as the Crisis States Research Programme (LSE); Effective States in Development (Manchester); the Africa Power and Politics Programme (ODI); the Future Agricultures Consortium (SOAS & IDS Sussex), and other political economy studies.*

2 *di John and Putzel (2009, p. 4) define a political settlement as "the balance or distribution of power between contending social groups and social classes, on which any state is based".*

1.1. Background

Uganda is a multi-party procedural democracy. This derives from a very peculiar form of elite bargaining, which produced and has sustained the current political dispensation. Presidential, parliamentary and local elections are conducted on a first-past-the-post basis. They are highly, sometimes excessively, competitive. This has implications for how the legislature functions in practice. Parliament is unicameral and comprises directly and indirectly elected members. As of April 2018, out of the 452 MPs, 290 were constituency representatives; 120 were District Women Representatives; 10 represent the army; 5 represent workers; 5 are youth members; 5 are persons with disabilities; and 17 were ex-officio. The ruling party, NRM, also the largest in the country, holds 302 parliamentary seats, FDC has 36, DP has 15, and UPC has 6. The remaining 66 seats are held by independent representatives.[3] The Vice President and Ministers are ex-officio members who do not vote on any issue. In reality, however, there are very few truly independent MPs. Many so-called 'independents' are aligned with the ruling party and are 'independent' only because they contested the elections as individuals, having failed to secure nomination as NRM candidates. Many special-interest MPs also support the NRM's positions on almost every issue, thereby further bolstering its numerical dominance.

On the whole, political parties are weak. They lack financial resources and have little presence outside Kampala and the major towns.[4] The NRM's relative strength and greater reach and capacity for exerting influence on many individuals and groups is the result mainly of its extensive use of the government's financial, logistical and administrative resources (Rubongoya, 2007). This situation has contributed to shaping how politics works and how it impacts the effectiveness of the state. If they are to stand any chances of being elected, candidates who are 'sponsored'[5] by any of the contesting parties must find money to finance their own campaigns and to establish networks of campaign and polling agents (Golooba-Mutebi, 2016c). They must contend with voters who, even if they pay attention to their programmatic agendas, are accustomed to trading votes for money and goods (Perrot, 2014).

This behaviour by the electorate compels candidates to borrow money from banks and other formal as well as informal lenders. Others sell or mortgage their assets, including residential houses, with the expectation that they will win and recoup their 'investment' from the generous salaries and allowances that MPs earn. Although MPs are very well paid, many are perpetually in debt. Large amounts of their incomes go towards servicing debts; and the expectations of their constituents only add to these financial burdens. The obligations stemming from voters' financial expectations compound their burdens: they expect help with paying school fees for their children, medical bills, funeral costs, and even for weddings and graduation parties. As a result, many MPs live in a state of perpetual financial insecurity. This makes them prone to bribery and manipulation and undermines their capacity to play their legislative and oversight roles in parliament (Golooba-Mutebi, 2016).

3 *https://www.parliament.go.ug/sites/default/files/COMPOSITION%20OF%20THE%2010TH%20PARLIAMENT%20AS%20AT%20 12%20APRIL%202018.pdf (accessed: 18.01.2020).*

4 *See, for instance "FDC campaigns without candidate: Tracing trail of candidate withdrawals'. The Sunday Monitor, September 22, 2019.*

5 *In this case sponsoring means having the blessing of a party to contest for elections under its banner, as its official candidate.*

The vulnerability of MPs to manipulation can best be witnessed when issues for discussion in parliament are of great interest to the executive. The executive's time-tested tactic for manipulating them is to invite MPs who may be opposed to its positions to meetings outside parliament. There, they encounter the President. MPs usually take advantage of this rare access to ask the President for help with personal problems, including servicing their debts. To enhance their chances of getting the help they need, legislators, who may have hitherto been vocal in their opposition to whatever the executive wants, moderate their views or take new positions. Those who persist in opposing it usually pay a price down the road. If they are NRM members, for example, they may experience difficulty being nominated to stand as party candidates in future. MPs usually seek to assert the authority of parliament from within parliamentary committees. However, where the stakes of losing an argument are very high for the executive, MPs are subjected to direct and indirect pressure to toe the line, to which they usually succumb.

Another tool the executive deploys to curtail the influence of parliament is the carrot of ministerial appointments (Tripp, 2010). Ministerial appointments have come to be associated with patronage because they have been used to buy off opponents and their constituencies and to reward supporters. In that way, they have helped consolidate political support among different groups (Golooba-Mutebi & Hickey, 2016). Patronage-driven appointments, which often reflect neither ability nor experience, account for the bloated cabinet and the dysfunctions within ministries, departments and agencies.[6]

Civil society is also generally weak. This stems from the nature of the political context in Uganda, whereby the state has tools and mechanisms it uses to constrain their capacity to hold it to account (Deniva, 2006; Nogara, 2009). That said, there is ample collaboration between CSOs and Members of Parliament. Besides the role CSOs play in petitioning, testifying before parliamentary committees, and providing them with much-needed information, the two sides work together on matters of policy, a relevant example here being the Uganda Manufacturing Association (UMA), and on issues related to accountability. Nonetheless, the collaboration can be intermittent and does not always lead to the desired outcomes, because of the executive's capacity to influence proceedings in parliament.

Furthermore, because of the legislation governing their registration, CSOs and NGOs are easy targets for control by the government. A handy tool for keeping them in line is the ever-present threat of de-registration or non-renewal of permits (Government of Uganda, 2016). There is also the threat to freeze their bank accounts should their activities be construed as 'political', or if they engage in what the authorities construe as 'politics'.[7] The evolution of the political settlement and its drivers – as described below - help us to understand the limitations of the state in Uganda as an agent of transformation and, in this case, a promoter of manufacturing.

6 'Museveni accuses his ministers of sleeping on the job'. The Citizen, February 8, 2019 - https://www.thecitizen.co.tz/news/africa/Museveni-accuses-his-ministers-of-sleeping-on-the-job--/3302426-4973126-r8ce6uz/index.html (accessed: 18.09.2019).

7 See, for instance, "Bank of Uganda freezes ActionAid accounts". Saturday Monitor, Saturday October 14, 2017 - https://www.monitor.co.ug/News/National/Bank-of-Uganda-freezes-Action-Aid-accounts/688334-4139336-whadng/index.html (accessed: 18.01.2020). Also: "Police raid offices of civil society organisations". Daily Monitor, Wednesday September 20. 2017 - https://www.monitor.co.ug/News/National/Police-search-Action-Aid-Uganda-offices-Kansanga/688334-4104798-xserjw/index.html (accessed: 18.01.2020).

1.2. Political trends

The circumstances under which President Museveni and the National Resistance Movement seized power in early 1986 could have been used to justify the exclusion and marginalisation of potential rivals. Political exclusion had long been a staple of politics in Uganda. One group of elites would grab power and monopolise it until another group seized it and did the same. Museveni and the NRM sought to move Uganda decisively away from this history.

They established a broad-based government and the all-embracing no-party political arrangement[8] that lasted for nearly 2 decades.

This new approach was made possible by an intra-elite consensus around the imperative to work together. Underlying it was the desire to avoid a repeat of Uganda's pre-1986 history of military putsches, civil wars, and political turmoil.[9] The consensus produced unprecedented political stability and accorded the government space to focus on post-war reconstruction (Hansen & Twaddle, 1998). Also, by preventing the re-emergence of the adversarial contestations of previous years, the no-party period afforded Museveni and the NRM ample space and time to settle down and consolidate their positions as dominant actors. On the other hand, the suspension of political party activities and the prevention of political parties from conducting any business outside Kampala significantly weakened the NRM's potential rivals (Rubongoya, 2007). To a large extent this weakening of political parties explains their general fragility (Tripp, 2010) and their inability to hold the government and the NRM in check.

However, only a decade after it had emerged, the consensus began to unravel as some of the people the NRM had co-opted from other parties began to exit the ruling coalition and to agitate for a return to multi-party politics. A key factor in these developments was President Museveni's creeping appropriation of decision-making powers, his unwillingness to listen to alternative views, and his perceived tolerance for corruption in which some NRM cadres and his friends and relatives were said to be active participants.[10] By 2005, intense internal and external pressure had forced the government to accede to demands for a return to multi-party politics. However, the return to multi-party politics triggered unforeseen developments and reshaped the way the government worked. In addition, it impacted Museveni's own approach to governing and his relationship with a wide range of influential individuals and interest groups, including the business community generally, and industrialists specifically (Golooba-Mutebi & Hickey, 2016). These developments have had serious consequences.

Understanding what has happened ought to begin with recognising Museveni's two-track approach to managing power and ensuring he remains in control. One track comprises co-opting as many people as possible and carefully selecting some for appointment to public office. These appointments preserve

8 From 1986 to 2005, the Ugandan government, under the leadership of President Museveni, suspended the activities of political parties and limited them to opening offices only in Kampala. Members and leaders of political parties could only be active in politics under the auspices of the National Resistance Movement, which was by then said to be an inclusive "movement" rather than a political party. Multi-party politics was restored only in 2005 following a referendum during which over 90% of Ugandans voted in favour of a multi-party system.

9 On the importance of elite consensus in stabilizing politics, see Lindeman, 2008.

10 According to interviews with exiled dissidents (2006/7). Also, The Daily Monitor, 2005. 'Bukenya's surprise role in Museveni's 4th term bid'.16 June 2005.

the image of continued inclusiveness. However, in reality, the co-opted may carry no weight at all (Matembe, 2019). The second track entails Museveni working personally with or deploying trusted aides and advisors to engage with groups that may have reason to feel disaffected. These interactions enable him to respond to emerging issues that are potentially politically problematic.[11] In brief, this is the political economy context in which the government is pursuing its ambitions in manufacturing, and this paper explores its relevance to Uganda's ambitions to promote manufacturing.

1.3. Overview of the manufacturing sector in Uganda

Like other developing countries whose economies are dependent on the export of primary commodities, Uganda is intent on pursuing structural transformation. This has been rendered urgent by the levelling off of commodity prices with the global slowdown. Currently, agriculture accounts for 25% of GDP and employs 70% of the population. Manufacturing is recognized as essential for economic growth because it has the potential for value-addition on existing resources. The production and export of manufactured goods has been a leading factor in all successful developing countries (Henley, 2015). Uganda's Vision 2040 envisages a transformed Ugandan society, with the country evolving from a predominantly peasant and low-income country, to upper-middle-income status within 30 years.

For these reasons, manufacturing is at the centre of the government's ambitions for economic and social transformation. The National Industrial Policy (Republic of Uganda, 2008) envisages building a modern, competitive, and dynamic industrial sector, fully integrated into domestic, regional, and global economies. Key priorities in the 5-year National Industrial Sector Strategic Plan (Republic of Uganda, 2010) included: to exploit and develop natural-resource-based industries; to promote agro-processing for value addition in niche markets; and to support engineering for capital goods, agricultural implements, construction materials and fabrication operations.

There are also more immediate, politically pressing reasons for seeking to promote manufacturing. Out of Uganda's population of 45.7 million people, 78% is under the age 30 years. Statistics from the gender ministry indicate that close to 65% of the unemployed population in Uganda are youth aged 18 to 30 years.[12] 1.2 million youth (ages 15 – 29) are idle.[13] 400,000 young people get onto the job market every year to compete for the approximately 9000 jobs created annually. There are strong connections between unemployment and poverty. The Uganda National Household Survey 2016/17 estimated that 21.4% of Ugandans - meaning 8 million people - live in poverty. September 2017 statistics showed that poverty had risen to 27.7%, equalling to 10 million people (UBOS, 2017). Thus far, the government is involved in efforts to devise ways of stemming the rising tide of unemployment and poverty, especially among the youth, who are a potentially politically restive segment of the population.[14]

11 *See, for example, "Museveni visits Kabaka Mutebi". The Daily Monitor, 5 February 2019 - https://www.monitor.co.ug/News/National/Museveni-closed-door-meeting-Kabaka/688334-4967680-lrkx7vz/index.html (accessed: 29.11.2019). Also: "Museveni orders government to pay Buganda Shs 70 billion". The Daily Monitor, 6 February 2019 – accessed: 29.11.2019.*

12 *"Youth loans programme cuts alcoholism by 10%". The New Vision, Monday, August 12, 2019.*

13 *State of Uganda Population Report 2018*

14 *"Jobless youth are a big liability, says Kasaija". The Daily Monitor, Friday November 30, 2018 - https://www.monitor.co.ug/News/National/Jobless-youth-big-liability--says-Kasaija--/688334-4875068-bd45igz/index.html (accessed: 29.11.2019). Also: "Unemployment ticking time bomb – Besigye". The Daily Monitor, Friday, July 31, 2015 – https://www.monitor.co.ug/Elections/Unemployment-ticking-time-bomb---Besigye/2787154-2814582-t12v3wz/monitor.co.ug (accessed: 29.11.2019).*

One step towards pursuing these ambitions has been to invest in enhancing agricultural production capacity and value addition. Another has been the planned gradual recapitalisation of the Uganda Development Bank, to enable it to provide loans to farmers and to manufacturers on concessional terms. Additionally, the government has injected significant financial resources into initiatives such as Operation Wealth Creation (OWC), the Youth Livelihood Programme (YLP) and the Women's Entrepreneurship Programme, to provide funding for self-employment, income-generating initiatives for the poor, women, and the youth. The YLP was launched under the auspices of the gender ministry in 2014 to support poor and unemployed youth aged between 18 and 30 years (Republic of Uganda, 2014). There is recognition, however, not least by President Museveni, that the future prosperity of Uganda and its people lies in manufacturing.[15]

1.3.1 The manufacturing sub-sector[16]

The structure of Uganda's economy has been changing. In 1980, the contribution by agriculture to GDP was about 70%. By 2000 it had declined to 29%, and by 2011, to 23%. Meanwhile, the share of the services sector has been growing, from 48% in 2000, to over 51% in 2011 (Table 1). On the other hand, the industrial sector's contribution fluctuated between 23% and 27% over the same period. Manufacturing averaged only about 7% - below the average of 11% for least developed countries (LDCs). The contribution of the manufacturing sector to industrial GDP since 2000 has averaged about 31%.

TABLE 1: SECTORAL COMPOSITION OF UGANDA'S GDP, 2000-2011 (%)

SECTOR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
AGRICULTURE	29.4	29.7	24.9	26.1	22.9	26.7	25.6	23.6	22.7	24.7	24.2	23.4
INDUSTRY	22.9	22.6	24.4	24.2	22.1	25.0	24.2	26.6	27.4	25.8	25.5	25.4
SERVICES	47.7	47.7	50.7	49.7	55.0	48.3	50.2	49.8	49.9	49.5	50.3	51.2

Source: World Bank/World Development Indicators (August 2013)

One of the various problems with manufacturing in Uganda is that many factories or manufacturing establishments do not produce at scale. According to a Uganda Bureau of Statistics business establishment census conducted in 2010/11:

Manufacturing establishments employed an average of four people;

15 *See, for example, "Museveni launches Mbale industrial park". The Sunday Monitor, Sunday, March 11, 2018 - https://www.monitor.co.ug/News/National/Museveni-launches-Mbale-industrial-park/688334-4336218-x9brdu/index.html (accessed: 10.11.2019).*

16 *This section draws heavily on Ggoobi et al., 2017.*

86% had fewer than five employees, and only 3% had at least 20 employees;

Out of a little more than 30,000 entities, 19% were in food processing and 81% in non-food processing (43% textiles, 17% furniture making, 13% metal products, and 8% in grain milling);

Only 11% of the entities had an annual turnover of more than UGX 10 million, compared to almost 64% with annual turnovers of less than UGX 5 million;

93% of manufacturing entities were sole proprietorships, 3% partnerships, and 3% private limited companies;

95% of the entities did not own a computer, and only 3% used the internet for their business activities. Furthermore, the manufacturing sector is dominated by SMEs, which account for over 90% of all the establishments in the sector.[17] The formal sector has experienced growth, while informal manufacturing has been declining over the last decade. Overall, Uganda's manufacturing sector is small and is, for the most part, engaged in producing low-value-added goods. These consist mainly of basic consumer goods: processed foods, tobacco and beverages, non-metallic minerals and metallic fabrication, wood and wood products, chemicals and chemical products, leather and footwear, textile and wearing apparel, sawmilling, printing, and publishing. Heavy investments are made mainly by foreign companies, and these are concentrated in textiles, steel mills, tanneries, bottling and brewing, and cement production (Obwona et al., 2014).

1.3.2. Structure of the sector

There is little capital goods manufacturing in Uganda. For the most part, manufacturing comprises last-stage (end-product) assembly and raw materials processing. A large share of this is food processing. Agro-processing establishments comprise about 39% of all manufacturing establishments in Uganda (UBOS 2012). Also, Uganda's manufacturers are high-cost producers with much excess capacity. Installed capacity utilisation averages 50%. The value and share of manufactured products in total merchandise exports and in industrial GDP has been rising in recent years. Manufactured exports increased more than 7 times between 2001 (USD176 million) and 2012 (USD531 million).18

Both the share of manufactured exports in merchandise exports and the share of manufactured exports as a percentage of industrial GDP grew significantly, from 39% and 13% in 2001 to 65% and 33% in 2011, respectively. Although Uganda still ranks below emerging economies such as China, Vietnam and South Korea with regard to the share of manufactured products in total merchandise exports, the trend is rising. Compared to Eastern Africa, it is performing well on average. However, these trends mask the challenge of low value addition in the manufactured products, giving a false picture of a vibrant and growing manufacturing sector. For greater context, it is worth exploring who the main movers and (potential) spoilers are in the domain of industrialisation, specifically manufacturing?

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17 This excludes enterprises in the informal sector, which is widespread and is believed to account for a large proportion of manufacturing output and employment.

18 Obwona et al., 2014

2.0. THE WOULD-BE MOVERS

2.1. Organisational actors

A. The Ministry of Trade, Industry and Cooperatives (MoTIC)

The Ministry of Trade, Industry and Cooperatives (MoTIC)[19] has the mandate to spearhead Uganda's broad industrial development agenda. It is also responsible for implementing the National Industrial Policy (2008). The NIP, whose final year of implementation was 2018, focused on natural resources-based industries (including petroleum, cement and fertilisers); agro-processing; knowledge-based industries (ICT, call centres, pharmaceuticals); and engineering for capital goods, agricultural implements, construction materials and small-scale operations.

By the end of its 10-year implementation period (2018/19), it was meant to have achieved the following: (a) contribution of manufactured products to total GDP of 25%; (b) contribution of manufactured exports to total exports of 30%; (c) value added in industry (as a percentage of GDP) of 30%; and (d) a competitiveness Index of 4.2. It is noteworthy that no baseline was provided for these indicators (MTIC, 2008). At the end of 2018, it was clear that these targets would not be achieved.

The Ministry, much like other MDAs, suffers serious capacity limitations. For example, while its technocrats are highly knowledgeable about the local manufacturing and industrial sector, the gap between theoretical and policy knowledge and capacity for implementation is pretty wide.[20] This partly has to do with understaffing. For example, the Department of Industry and the Department of Micro, Small and Medium Enterprises (MSMEs) have less than 40 staff, rendering them too small to cover the whole country effectively.

Challenges related to understaffing are in turn compounded by a lack of resources to facilitate policy implementation. These challenges also contribute to MoTIC's failure, as the leading actor on industrial development, to effectively coordinate with other MDAs dealing with other aspects of economic policy that are essential to promoting industrialisation, such as investment promotion and trade facilitation.[21] Also, within MoTIC, the trade portfolio is larger and receives more attention and resources than the industry portfolio – a clear indication of the government's greater actual interest in trading rather than in its stated industrialisation agenda.[22]

MoTIC is also in charge of other ancillary policies that support industrial development: 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). Also notable is the Buy Uganda Build Uganda (BUBU) Policy (2014), which is meant to encourage government consumption of locally produced goods.

19 Formerly Ministry of Trade, Tourism and Industry (MTTI)

20 This is not unique to MTIC. See, for example: Golooba-Mutebi, 2016b. Also: Golooba-Mutebi & Bukenya, 2014.

21 Coordination challenges are also not limited to MTIC. See, for example: Republic of Uganda, 2014.

22 Interview: 18.07.2019

Furthermore, under MoTIC's supervision, several agencies play roles in supporting Uganda's manufacturing agenda. They include the Uganda Industrial Research Institute (UIRI), the Export Promotion Board (EPB) and Uganda National Bureau of Standards (UNBS). Although UIRI and UNBS work actively to support firms, they are each mandated to cover only one specific aspect of the industrialisation agenda and do not have oversight over the whole process.

MoTIC's weak position and the relative lack of interest in industrialisation by more powerful MDAs has resulted in a void in the industrial policy process. While in principle there is a will to build a stronger industrial sector, this has not been adequately funded or coordinated. Efforts to support the private sector in manufacturing and industrial development have been scattered, and the government's intervention in the industrial sphere is said to amount to a 'broad range of uncoordinated and enterprise-specific interventions' (Selassie, 2008: 4). Even more significant is the fact that government's actions in support of manufacturing have been either non-existent or linked to supporting particular firms for political reasons.[23] Although the government has done much to create a stable macroeconomic environment, it has not been as successful at determining which strategic priorities to pursue (Obwona et al., 2014).

Many of the challenges faced by MoTIC are as much due to internal technical challenges as they are to limited financial resources. The budget allocations in recent years are telling. In the 2018/2019 financial year, the 'trade and industry' portfolio received US$ 36.5 million, which was about 0.5% of the total budget allocation. In the 2019/2020 budget, this increased to US$ 55 million, which translates to about 0.6% of the total allocation (MoFPED, 2019b). The same budget saw a considerable allocation towards infrastructure which, admittedly, is destined to facilitate the industrialisation agenda. Electrification of industrial parks received US$ 40 million; and US$ 28 million was allocated to the development of supportive export infrastructure in export processing zones and industrial parks (MoFPED, 2019a). There are other challenges, too, which are linked to the excessive informality in decision making:

There are simply too many power centres. There are people who take investors straight to Museveni, for example. The investors focus on acquiring land but not on other relevant issues, having been convinced by commission agents that all they need to do for things to work is see the President. Then later on things go wrong and the President says "so and so you're not doing your job", when you were not involved right from the start. When you ask officials here what happened, they say 'You know that thing was blessed by so and so. We couldn't interfere because we didn't want to get into problems'. It shows a lack of synergy.[24]

B. The Ministry of Finance Planning and Economic Development (MoFPED)

The MoFPED is in charge of policy-making in the economic sector, and has an interest in industrialisation in as far as it is part of Uganda's development ambitions. Its 2017 publication, 'National Strategy for Private Sector Development: Boosting investor confidence for enterprise development and industrialisation 2017/18-2021/22' seeks to use the industrialisation agenda as the anchor of government support to the private sector. However, although it focuses on industrialisation, the measures it suggests are largely generic. For example, while reference is made to the development of industrial parks, little attention is paid to the role of foreign investment, infrastructure, and potential markets.

23 Interview: 25.07.2019.

24 Interview: 24.07.2019.

Curiously, although MoTIC as the line ministry has more technical knowledge of the sector, MFPED is in charge of economic policy and its industrial policy components.

MoFPED is also responsible for the legal framework for investment. As a result, it oversees agencies implementing investment policies such as the Uganda Investment Authority (UIA)[25] and the Uganda Free Zones Authority (UFZA). A new Investment Code replacing the outdated 1991 version was adopted in 2019. It establishes the Uganda Investment Authority as a one-stop centre for investors and includes provisions on protection from expropriation and on compensation. The Code also requires foreign businesses to register with the UIA and outlines criteria for qualifying for investment incentives. In addition to the Investment Code, Uganda's investment relations with other countries are regulated by Bilateral Investment Treaties (BITs). Currently six BITs – with France, Denmark, the Netherlands, the United Kingdom, Switzerland and Germany – are in force.

MoFPED's control over budget allocations provides it with the leverage to set national priorities and determine the level of support any agenda, including the industrialisation agenda, receives. Admittedly, the funding allocated to institutions that are directly concerned with coordinating and promoting the industrialisation agenda provide some indication of the government's actual level of commitment to this agenda.

C. Uganda Development Corporation (UDC)

The Uganda Development Corporation (UDC), was meant to be the government's 'investment arm' when it was first established under the colonial government. In the 1970s, during the Idi Amin regime, it collapsed. It was revived in 2016 under the current government, to play the same role of doing business for the government. Its mandate covers manufacturing and enjoins it to make long-term investments in strategic sectors to stimulate industrial and economic development, and to promote private sector growth. In 2017, a 7-member board was appointed and "given clear instructions" to ensure that UDC invests in "viable businesses with a bias towards industry".[26]

So far, UDC seems to have had little impact on manufacturing. However, it inherited a number of investments, some of which owe their origins to political considerations. They include tea estates in Kabale, Kisoro and Zombo districts; fruit processing plants in Soroti and Luweero districts; and infrastructure services in Kalangala district. During his 2006 presidential campaign, President Museveni promised the Soroti factory to the people of Teso, who grow a lot of fruits in that region and asked for a juice processing plant. According to a respondent:

Then the Koreans came and said 'we can build you this factory'. They started building in 2008. UDC came in 2018 and found an incomplete factory which was 10 years old. There was no electricity, no security. By then the project was about to end because it was running out of money. UDC decided to take it over and complete the construction. Museveni launched it in April 2019. The factory was the launched off-season. There were neither oranges nor mangoes.[27]

25 At the time of our interviews, discussions were taking place to bring UIA under MTIC, where it was originally placed.

26 Interview: 25.07.2019.

27 Interview: 25.07.2019.

Lack of raw materials, which the Soroti factory confronted upon its launching, bedevils other investors too, the most famous currently being an Egyptian investor who established an abattoir in Bombo, to the North of Kampala. Prior to setting up the abattoir, the investor was convinced that Uganda had enough animals to supply meat to the Middle East.[28] The investor, it seems, was convinced without evidence. After the abattoir was established, only a few animals were slaughtered. Currently the abattoir is largely idle because the required animals – which have to meet certain age and weight requirements – are not available in sufficient numbers to keep it going.

For UDC, challenges such as these are compounded by underfunding from government. It is currently funded on a project-by-project basis, even though the government has promised to capitalise it. UDC has also been plagued by internal instability, which has led to high employee turnover rates. The corporation has had five executive directors since 2008, two of whom resigned. Amidst such rapid turnover in senior management, there is only so much the corporation could achieve.

D. Uganda Development Bank (UDB)

A key constraint faced by investors in Uganda, local investors particularly, is access to affordable financing. With interest rates hovering around 25 per cent, the cost of capital in Uganda is very high. Currently, the government does not have official mechanisms that are designed specifically to finance manufacturing. Ideally, the Uganda Development Bank (UDB) should plug this gap. The UDB is government owned and has the mandate to support commercially viable, longer-term-horizon investments that commercial banks prefer not to finance. It provides financing at a lower rate than commercial banks and offers support in the form of loans, trade financing, equity investment and bank guarantees. Its priority sectors are manufacturing, extractives, tourism, agriculture, infrastructure and human capital development. In 2018, the bulk of the approved projects were in agriculture, agro-processing and manufacturing (UDB, 2019).

Because of the favourable terms on which UDB provides financing, its loans are in high demand, and it has a large backlog of projects to be approved.[29] This backlog arises from UDB being underfunded. A promise by President Museveni to capitalise the Bank to the tune of UGX500 billion is yet to materialise, several years since it was made.[30] As a respondent intimated: "The government agreed in principle to provide the funding. But then it went on a 'go-slow'. So, cheap credit has been delayed. In six years, the government has not made the necessary intervention, which is putting our own money into UDB to avail cheap capital".[31] According to another source: "The Ministry of Finance was instructed to release the money, but they drag their feet".[32] This has caused much frustration in MTIC, not least because there is nothing it can do to push MoFPED to act.

28 Interview with an informed source (25.07.2019).

29 Interview: 18.07.2019

30 Interview with a former member of the Board of Directors (18.07.2019). see, also: "Government yet to recapitalize Uganda Development Bank – chairman". Daily Monitor, Friday November 13, 2015 - https://www.monitor.co.ug/Business/Finance/Government-recapitalise-Uganda-Development-Bank/688608-2954118-format-xhtml-15om6vx/index.html (accessed: 18.01.2019).

31 Interview: 18.07.2019

32 Interview: 24.07.2019

Meanwhile, MoFPED attributes the said dragging of feet to factors beyond its control: "There are too many competing demands, especially for infrastructure. The budget is too tight. It leaves little room for manoeuvre because 90 percent is committed in advance. But we have been taking note of UDB's needs. Last year we gave them 50 billion shillings. This year we gave them 103 billion".[33] Clearly, while a well-funded UDB would help plug the financing gap created by high interest rates and the reluctance by commercial banks to provide long-term financing, not enough is being done to capacitate it to do so.

E. Uganda Investment Authority (UIA)

The UIA, which was originally set up under MoTIC but now operates under the auspices of MoFPED, is responsible for investment promotion. It aims to promote investment in Uganda by both local and foreign investors. UIA's priority sectors for investment, also outlined in national planning documents such as the National Development Plan, include manufacturing, extractives, tourism, pharmaceuticals, ICT and agro-processing. The agency is also responsible for other policy initiatives linked to investment, including the Namanve Industrial Park and the creation of a one-stop centre for registration and business promotion. Both initiatives have been littered with challenges relating to delays in implementation and coordination, which points to laxity or lack of capacity or both within UIA.

Analysts contend that in recent years, investment - especially foreign investment - has been driven more by exogenous factors such as the discovery of oil, than by focused investor promotion efforts by UIA (Ajaegbu, 2014). UIA's limited capacity and lack of resources have resulted in the understaffing and underfunding of the agency. As a result, the agency can only react to prospective investors' requests for support. It lacks the capacity to proactively promote available investment opportunities. Investors who feel no need to seek assistance or those who know about UIA's limited capacity to get things done, usually find their own solutions to the challenges they face, including by offering bribes.[34]

F. Uganda Manufacturers Association (UMA)

The Uganda Manufacturers Association (UMA) is Uganda's prime advocacy organisation for the industrial and manufacturing communities. Its mission is: "To promote and protect the interests of industrialists and manufacturers in Uganda". UMA advocates on behalf of its members in matters related to policy, ranging from environmental regulation to taxation, cost of doing business, budgeting and policy formulation. It was founded in the 1960s, through efforts spearheaded by a prominent Ugandan-Asian entrepreneur, Jayant Madhvani, to champion the interests of manufacturers. During the years of political turbulence, it fell into abeyance; but was revived in April 1988, through the efforts of a group of manufacturers led by the industrialist and businessman, James Mulwana. The aim was to bring industrialists together, outside of the National Chamber of Commerce, which at the time was deemed to represent the interests of the entire business community.

33 Interview: 30.07.2019

34 Interview: 19.07.2019. See, also: "Anite accuses ISO boss of blocking shoe investor". The Daily Monitor, Monday, October 7, 2009 – https://www.monitor.co.ug/News/National/Anite-accuses-Kaka-blocking-shoe-investor/688334-5302538-125mat9z/index.html (accessed: 30.11.2019). Also: "ISO yields to Anite, withdraws from factory land". The Daily Monitor Wednesday, October 9, 2019 - https://www.monitor.co.ug/News/National/ISO-yields-to-Anite-withdraws-from-factory-land/688334-5305010-21vu1oz/index.html (accessed: 31.11.2009).

UMA represents the interests of industrialists with the government. It advises the government on policies to foster a conducive business environment; and targets the government's political and technical officials, including parliamentarians, ministers and even the President. UMA's role is informed by research and analysis focusing on policies and legislation with implications for manufacturing. Its advocacy seeks to propose improvements or alternatives in this regard.

In the years immediately following its revival, UMA wielded a lot of influence. Under James Mulwana's leadership, it was at its most effective as an advocacy organisation. As chairman, Mulwana maintained close contact with the government, and he enjoyed the attention of the relevant people, up to the highest levels. He had the ear and enjoyed the admiration and respect of President Museveni. The President would grant him audience whenever he sought it. As a result, UMA was able to get the government to act on the concerns and interests of the manufacturing fraternity. Gains included the tax waiver on raw materials in 2001, and the eventual commitment from the government to invest in infrastructure such as roads, power dams, and railway transport.

The government made good on its commitments, which has contributed to making manufacturing in Uganda more competitive than previously, though much remains to be done. UMA's activism and successes incentivised manufacturers to seek membership, having realized the importance of unity when it came to advocacy. Between 1989 and 1991, membership grew from 200 to 700. Today, the association has 1221 registered members, straddling all categories of manufacturing, from small and medium entities to large industrial concerns.

UMA has scored other successes in recent years. It has lobbied the government, through the Ministry of Finance, to make some adjustments in tax policy, focusing specifically on customs duties. The main objective of these efforts has been to widen the local market for local manufacturers, and has translated into initiatives such as the Buy Uganda Build Uganda (BUBU) policy. It is envisaged that BUBU will expand the market for suppliers of local raw materials to manufacturers, as the latter develop capacity and ultimately create more jobs, leading to the realisation of the government's ambitions of promoting shared prosperity. UMA's efforts to grow the market for locally produced goods also seek to pressure the government to mainstream local content in procurement by all its ministries, departments and agencies. In this regard, UMA has been pushing to fast-track the local content bill. It is hoped that the bill will facilitate an increase in procurement of locally produced goods by MDAs. This would, in turn, help to increase production by manufacturers operating below capacity due to a small market size.

Elsewhere, UMA has actively lobbied the government to institute changes in tax policy. The government responded recently, via amendments in customs duties and laws for the financial year 2019/2020. The changes. which took effect on July 1, 2019, targeted certain imported goods which were said to pose unfair competition for locally produced goods, including toilet paper, exercise books, toothbrushes, biscuits, shoe polish, sugar, carton boxes, iron sheets or steel wool, and mattresses. The resulting reduction in imports is expected to grow the market for locally manufactured alternatives and incentivize local manufacturers to produce more. At the time the BUBU policy was launched, Trade Minister Amelia Kyambadde said new regulations were being developed on a reservation scheme that will require all government ministries, departments and agencies (MDAs) to procure products made in Uganda.

So far, UMA's push for the implementation of the BUBU policy has led to a number of notable developments. Sinohydro Corporation Limited – the contractor implementing the Karuma hydropower project – now buys cement and steel products from local manufacturers Hima Cement and Roofings Rolling Mills, respectively. Additionally, during the 2018/2019 financial year, government ministries, departments and agencies (MDAs), including State House, the Equal Opportunities Commission, the Ministry of Finance and the Ministry of Works through its Standard Gauge Railway Project, purchased locally-manufactured furniture worth over sh350m from the Uganda Prisons furniture workshop. Other developments include a contract signed between the National Medical Stores and garment manufacturers Picfare/Nytil for the latter to supply uniforms to all government health facilities. Further, through the Petroleum Authority of Uganda, local companies have supplied locally-manufactured products such as beverages, drilling and production materials, as well as construction materials, to various actors in Uganda's budding oil industry.

Another domain in which UMA has scored notable success is in its advocacy to reduce the cost of doing business, specifically with regards to the high cost of energy. Manufacturers have been assured by President Museveni of impending reductions in power tariffs which, nonetheless, will come into effect in phases, starting with large manufacturers who are already getting electricity USD 0.05 (five cents) per kilowatt. Eventually, this tariff will be extended to all manufacturers.

Despite these notable successes, in recent years, UMA's influence has somewhat diminished, denting its effectiveness as an advocacy organization that is able to realise the mission it set for itself at its founding. One reason this has happened is the passing of Mulwana, and his replacement by people who are not as influential as he was, particularly with President Museveni. Apparently, the government no longer takes UMA as a group as seriously as it once did:

When we were on the board, we agreed with the government that we would meet once per quarter with the Prime Minister, where he would summon the relevant ministers. We would also meet Museveni once a year, and this was agreed with the Office of the President. Meetings with Museveni were intended to push the agenda of the government supporting industry. One thing was to promote BUBU. The other was to fight Chinese influence. The failure of these meetings to materialise with the regularity that was intended testifies to the government's lack of seriousness.[35]

Equally, UMA is not taken seriously by all its members, which has affected the association's effectiveness as a lobby for industry:

When Amos Nzei chaired the board, company owners would turn up for meetings. With Barbara Mulwana, they send their managers. But when Museveni decides to meet with manufacturers, the owners turn up. Except, when this happens, it is not always with UMA's interests or the collective interests of manufacturers in mind. You walk in as UMA with your firm positions, and then there comes Madhvani, Wavamunno and other big boys. Then Museveni comes in and deploys his legendary charm on everybody.[36]

35 *Interview: 16.08.2019.*

36 *Interview: 16.08.2019.*

This tendency by prominent members of UMA to upstage the organisation and take their issues individually to President Museveni for resolution during meetings set by UMA undermines its effectiveness as a lobby group. There are indications that this plays well with Museveni because it ensures that UMA does not become too powerful for him to manage: "When the list of companies to be bailed out of financial difficulties came out, it caused havoc. UMA found itself at the centre of a storm. Some were helped. Others were not. That created divisions".[37]

This is significant because there are UMA members whom Museveni views as 'political'. Indeed, he tends to keep these political members of UMA at arm's length, while cosying up to the Asians (Chinese, Indians and Pakistanis): "Museveni is listening less to UMA because he's got the Chinese. He now pays less attention to local entrepreneurs".[38] In turn, this has triggered a tendency by UMA members to ensure that they are not seen to be political. Apparently, this even affects their own willingness to lobby the government on important matters. The current stand-off between Rwanda and Uganda is instructive:

JESA Dairies was buying milk from Rwanda. Excess processing capacity in Uganda has led to fierce competition for milk by processors. They fight for it. Rwanda was filling that gap. Also, I was in Kikuubo the other day. Now you can easily walk through it, which previously wasn't the case. This is because of reduction in business with Rwanda. As UMA, we have had a board meeting and AGM recently. We have decided not to be seen to be meddling in politics, since the principal (Museveni) has insisted on direct diplomacy. Mulwana would have intervened because he knew both leaders. But under the current leadership, UMA has officially decided against it.[39]

While there may appear to be cohesion on certain issues, however, as an umbrella organisation, UMA also faces the challenge of being somewhat fragmented and difficult to hold together, particularly in the face of internal dissension:

UMA was meant to be an umbrella (organisation) but it hasn't quite been. There is the Indian Association, the Small Manufacturers Association, the Water Manufacturers Association, etc. There is fragmentation. When there are disagreements, people vote with their feet. Some, like Alykhan Karmali[40], believe that UMA is completely useless. Those who can, meet Museveni through their own influence. The big guys do not want to 'sit' with biscuit makers or small guys who knit sweaters.[41]

G. The Uganda Industrial Research Institute (UIRI)

UIRI was established by an Act of Parliament in 2002, through the direct efforts of President Museveni. He requested assistance from the Chinese government to build and equip the institute, and it is now fully funded by the government. It is a semi-autonomous agency with a vote in the budget, which means that its funding is not channelled through the Ministry. Previously, UIRI was under the Ministry of Trade, Industry and Cooperatives, but was later moved to the Ministry of Science, Technology and Innovations.

37 *Interview: 16.08.2019.*

38 *Interview: 16.08.2019*

39 *Interview: 02.08.2019.*

40 *Owner of Mukwano Industries.*

41 *Interview: 16.08.2019.*

On its website, it is described as "a competence and capability centre that champions innovations, translates applied research results into practical applications that lead to high quality efficient industrial products, processes and creates highly skilled human resources". As a result, the institute sees itself as "a source of support for the country's nascent industry".[42]

UIRI is easily the leading tertiary education institution in the application of science to industry. It does so through activities that are designed to facilitate rapid industrialisation and the identification of appropriate and affordable technologies that add value to local products for national, regional, and international markets. Its core activities are focused on research and development (R&D) and designing prototypes to help train and develop enterprises. Up to 70% of UIRI personnel are engineers and scientists, and the institute has had a decade of successful research implementation and outreach. Indeed, in the East African region, UIRI has attained the status of a Centre of Excellence through a series of serious audits. Such is its reputation that "All similar institutes in East Africa benchmark with us. We understand what we should be doing".[43]

As an incubation hub, UIRI also offers a home to budding industrialists and provides them with the facilities and other necessary support to develop their concepts. It aims to nurture start-ups, and is open to anybody with a crystallised idea of what they want to manufacture or process for the market. The idea is that a potential 'incubatee' brings their idea to UIRI, which assesses its viability before providing them with premises, equipment and technical support until they are able to establish themselves as a business. UIRI "helps them to acquire appropriate technology that is also affordable, as many potential entrepreneurs do not know what technology to buy. Other support is in the form of product development, business development skills, marketing, and certification".[44]

Current incubatees are looking to manufacture food supplements, baby food, cosmetics, skin care products, and hair shampoos. In addition, the institute is piloting production of peanut butter in Lira in Northern Uganda, wine in Mbarara and Kabale in Western Uganda, fruit juice and meat processing in Arua in the Northwest, and meat processing in Busia in the East. At least one incubatee, Megha Milk – which is owned by President Museveni's political advisor Moses Byaruhanga – is about to graduate and move out to their own factory in Namanve Industrial Park. This is after running a milk-processing facility at UIRI for six years.

So far, most incubatees have not been able to graduate into self-sufficient businesses that can operate outside of UIRI. Observers attribute this to incubatees being overly hand-held, to the point they become entirely dependent on UIRI's support. Although incubatees sign memoranda of understanding with UIRI upon admission, which specify when they are supposed to graduate, "UIRI does not follow up on the MoUs for graduation. Some simply walk away after years of being on the premises. One walked away after 8 years of support, his concept having failed to mature into a marketable product".[45]

42 https://uiri.go.ug/content/historical-perspective (accessed: 26.08.2019)

43 Interview: 15.08.2019

44 Interview: 30.07.2019.

45 Interview: 15.08.2019

Like other MDAs, UIRI faces numerous challenges which are directly connected to the prevailing political economy. UIRI has shortfalls in its budget every financial year, with inadequate allocations that are never disbursed in full. Moreover, "The Ministry of Finance is arbitrary in the way they release money. They do not inform UIRI in advance how money will be sent. They can flood you with money in the final quarter when it cannot all be spent. In that way they disorganise your work plans. This is not only about UIRI. All government bodies fail to do their work because of this staggering of finances. Another challenge is being overstretched: "We are very thin on the ground because we want to do so many things. It would be good to do less and do it well".[46]

H. Uganda National Bureau of Standards (UNBS)

UNBS is an agency under MoTIC. Its mandate is to develop standards and certification for manufactured products. In addition, it ensures the enforcement of these standards, when necessary. So far, the bureau has achieved some success in driving up the standards of locally manufactured goods to ensure that they are safe for consumption and able to compete on the domestic and export markets.

However, not unlike other MDAs, UNBS has limited capacity linked to inadequate funding and personnel. These challenges have pushed it to prioritise certification of products for the domestic market over those for export. This has hampered Uganda's participation in global value chains, as manufacturers must be able to adhere to certain production standards set by downstream firms. Further, the agency suffers many capacity gaps linked to inadequate staffing, and it does not have the necessary resources to recruit and fill them. This is why UNBS branches outside Kampala are inadequately staffed and are not well equipped. Even their offices at one-stop border posts do not have the necessary equipment. As a result, some unscrupulous manufacturers are able to cut corners and produce goods that do not measure up to the established standards. A case in point is that according to reliable sources, when the Government of Rwanda sought to restrict the entry of manufactured goods from Uganda, one of the ways in which they were able to do so was by tightening up on standards inspection. Apparently, they found items that did not meet standards requirements, such as 50kg cement bags which weighed less.[47]

MoTIC has long argued for the privatisation of standards management.[48] Within MoTIC, at the highest levels of the Ministry, it is believed that privatisation of standards management would go a long way towards plugging existing gaps in enforcement:

There are so many qualified young people who are unemployed because we have only one standards bureau. We have had to resort to verification at point of origin to try and curb the influx of poor-quality products. But there are many which are still coming in, including baby food and electrical goods. We are literally a dumping ground for sub-standard goods, including children's toys. The biggest challenges are human and animal drugs. The Ministry of Agriculture used to handle animal drugs and agricultural chemicals, but they had no capacity for enforcing standards. Local manufacturers are also difficult to manage, because some set up their operations in out-of-the-way places. UNBS is overwhelmed.[49]

46 Interview: 15.08.2019

47 Interview: 01.07.2019.

48 Interview: 24.07.2019.

49 Interview: 24.07.2019.

2.3. Individual actors

A. President Museveni

President Museveni is the leading individual champion for manufacturing. During the 1990s, he and the donor community were preoccupied with poverty reduction. This was reflected in government policy. Significant financial resources were dedicated to initiatives that were seen as possessing great potential to advance the agenda of poverty reduction. From the early 2000s, however, he acquired a new ambition: prosperity promotion. He saw this as best pursued through industrialisation, specifically manufacturing, including value-addition to agricultural products, given the size of Uganda's agricultural sector and the continued dominance of agricultural products in the country's exports (Eberhard-Ruiz and Calabrese, 2017).

There is, however, a down-side to this. Museveni's untrammelled dominance in decision making[50], which allows him to get decisions made faster than would otherwise be the case if he didn't intervene[51], creates its own problems including in the manufacturing sector. Here, as elsewhere, over and above the heads of other individual and institutional actors, Museveni is the key decision maker. In his actions, he usurps the roles of ministries, departments and agencies whenever he chooses.[52] He reverses their decisions or imposes others on them, without necessarily consulting the officials or ministers concerned.

This approach to 'problem-solving' can be beneficial, and there are several examples of this. They include the order he issued to the Uganda Investment Authority (UIA), over the head of the Minister of State for Investment, to stop levying service fees on manufacturers in Namanve Industrial Park. The order followed complaints by manufacturers, via UMA, about UIA levying service fees without providing the services for which they were supposedly paying. The order was certainly beneficial to the said manufacturers, given the fees would have been an addition to their cost of doing business. More widely, it reveals an opening that manufacturers can use in pursuit of quick decisions on matters of importance to them, which might otherwise take long to make if allowed to go through normal bureaucratic processes. However, the President's approach can also have negative consequences in as far as it disempowers officials, making them fearful of or reluctant to make decisions so long as they do not know what the President thinks about whatever matter they may be dealing with.[53]

The fact that UMA took this particular issue directly to the President suggests that they knew that the responsible Minister was unlikely to take quick and decisive action. Overall, while the approach cuts through red tape and gets problems solved and challenges addressed quickly, it undermines the mandate and authority of officials, compounds their fear or reluctance to make decisions, and entrenches the image of MDAs as weak and ineffectual.

50 *Golooba-Mutebi & Hickey, 2016.*

51 *See, for instance, Golooba-Mutebi, F., 2018.*

52 *Golooba-Mutebi, 2016.*

53 *Frederick Golooba-Mutebi, Badru Bukenya & Gloria Seruwagi, 2018.*

The on-going politico-diplomatic stand-off between the governments of Rwanda and Uganda also helps illustrate the impact of this approach on MDAs. In February this year, the Government of Rwanda instituted measures that culminated in a drastic reduction in the importation of Ugandan goods – mainly manufactured goods – into the country. There are indications that the measures took manufacturers for whom Rwanda had hitherto been a major market, as well as the Government of Uganda, by surprise. Once instituted, the measures led to significant financial losses for manufacturers. The importance of the Rwanda market was underscored by one manufacturer: "Rwanda is a strategic market for us, as it is an emerging market and the gateway to other potential markets in the region such as Burundi and Eastern DRC".[54]

This view was echoed by the representatives of other manufacturers who had been exporting large volumes of goods to Rwanda. What had they done to address the problem? According to one manufacturer whose efforts mirrored those of others, "We have engaged the government through the Ministry of Trade, Industry and Cooperatives. The Minister assured us that the government would intervene in the matter on our behalf and on behalf of all manufacturers exporting products to Rwanda".[55] However, asked what steps had been taken by the Ministry, a senior official stated: "The issues are complex. They are in the hands of the President. The relationship boils down to two people. They have the answers and the solutions".[56]

Another domain in which presidential intervention both solves problems quickly and creates new ones, is that of incentives. According to sources at URA[57] and MoFPED[58], the relevant laws and policies clearly stipulate who is entitled to which incentives, and under what circumstances. However:

Tax waivers can be ordered or authorised by Museveni for particular individuals or entities. Given the way Uganda works, however, others can take advantage of such waivers. Exemptions can also focus on whoever invests in a specific activity, such as industrial parks, regardless of what they go on to do in the said park. Waivers are supposed to be money you don't collect. The government is supposed to pay this money to URA. But that can only work if waivers to be paid are budgeted for. When MoFPED has budgeted for waivers, the actual amounts have exceeded what is in the budget. So URA ends up not receiving the money.[59]

These discretionary waivers may be damaging in some circumstances, but the reasons for them reflect Museveni's determination to attract manufacturing entities to Uganda. The waivers are supposed to be applied equally. However, there are instances when Museveni will intervene and demand that waivers be granted even to investors who do not fulfil the laid-out criteria. This usually happens when the prospective investments are large and, therefore, seen as being of strategic importance to the country. Museveni fears that if such potential investors are not granted the incentives they want, other countries, perhaps even Uganda's neighbouring countries, will do so and attract the investors away from Uganda.

54 *Written correspondence from the corporate affairs manager, 02.09.2019.*

55 *Interview, 02.09.2019.*

56 *Interview: 24.07.2019.*

57 *Interview: 22.07.2019.*

58 *Interview: 30.07.2019.*

59 *Interview: 30.07.2019.*

These are usually investments which are too large and too capital intensive for Ugandan investors to put up. They tend to be Indian or Chinese investment projects such as the phosphate plant in Osukuru in Tororo District, which failed to materialise despite the government's best efforts, until a Chinese investor turned up and got it off the ground. In this particular case, taxes due to URA threatened the plant's progress towards production. The investor sought Museveni's intervention. Museveni intervened and even blasted URA for "frustrating investors". He also went on to demand that the URA officials who had been insisting on the taxes being paid upfront be relieved of their duties.[60]

What impact do such actions have on local manufacturers? None, except perhaps for those who may be direct competitors of the Chinese company. What they do demonstrate, above all, however, are Museveni's credentials as a champion of manufacturing. That said, it is important to ask whether this level of discretionary waiving of taxes is not used in ways that can be harmful to the interests of local manufacturers. This would require in-depth research.

B. Retired General Caleb Akandwanaho (aka Salim Saleh)

Many observers of Uganda's political landscape would agree that General Saleh is one of the very few people whom President Museveni really trusts. Proof of this is evident in the wide range of responsibilities with which he is entrusted in both the civilian and military domains. This is despite him having formally retired from the army and not having a formal position in the government beyond Senior Presidential Advisor on Security and Defence. In his role as an advisor, he is one of more than 70 'advisors', many of whom never get to see President Museveni, let alone speak to him for long periods of time.[61] General Saleh, a businessman in his own right, plays wide ranging roles, including facilitating both local and foreign investors in different ways, and defending or promoting their interests.[62] A source who is familiar with General Saleh's role described him as an "effective broker and advocate for individuals, groups and sectors".[63]

Saleh is also credited with helping President Museveni find land for favoured investors such as Chinese investors seeking to invest in large manufacturing plants. The Chinese industrial park in Namunkekera, Kapeeka, is one outcome of Saleh's efforts: "Saleh sold his land and house in Garuga, bought land in Kapeeka, and set up a maize processing facility there to supply South Sudan. Museveni heard what he was doing and went to see. This is how Museveni asked him for 100 acres of land to build an industrial park. Museveni then brought the Chinese. Everything they ask for, they get. These are the same Chinese who were digging up sand in Lake Victoria".[64]

60 See: "Museveni orders sacking of URA staff over Ushs4b tax row". The Daily Monitor Wednesday, August 22, 2018 - https://www.monitor.co.ug/News/National/Museveni-orders-sacking-of-URA-staff-Shs4b-tax-row/688334-4723144-mek223z/index.html (accessed: 19.11.2019)

61 See: "The truth about Museveni's advisors". The New Vision, August 24, 2006 - https://www.newvision.co.ug/new_vision/news/1142228/truth-about-museveni-eur-advisors (accessed: 18.11.2019).

62 See, for example, "Salim Saleh backs sand mining in Lake Victoria". Daily Monitor, Tuesday, January 16, 2018 - https://www.monitor.co.ug/News/National/Gen-Salim-Saleh-sand-mining-Lake-Victoria-Museveni-Chinese-/688334-4265698-rgoyx2z/index.html (accessed: 19.11.2019). Also: "Kapeeka gets ceramics, fruit processing plants". Daily Monitor, Thursday January 25, 2018 - https://www.monitor.co.ug/News/National/Kapeeka-gets-ceramics-fruits-processing-plants/688334-4278438-a9ong2/index.html (accessed: 19.11.2019).

63 Interview: 16.08.19.

64 Interview: 25.07.2019.

This 'special treatment' of Chinese investors has raised the ire of Ugandan manufacturers, indigenous Ugandans especially. The lack of interest in UMA by the Chinese has done nothing to endear them to local manufacturers who, as a result, have sought to 'fight' them, only to be thwarted by Museveni and Saleh: "When we go to Museveni and complain about the Chinese, only for Saleh to come and say 'work with the Chinese', we know who is talking!".[65]

Saleh's activities, much like Museveni's, are a double-edged sword. On the one hand, they short-circuit processes and undercut and marginalise government institutions whose mandate is to attract and facilitate investment. Yet, on the other hand, they still end up mobilising investors, who have set up factories, created large numbers of jobs and contributed to producing manufactured goods for export, thereby contributing to the government's ambitions for the structural transformation of the economy.

C. Foreign investors

Uganda has a rather small capitalist class. As already indicated, their main activities are in trading and services (Kjær and Katusiimeh, 2012). However, most of the manufacturing firms belong to Ugandans. According to the Census of Business Establishments conducted in 2010/11 by the Uganda Bureau of Statistics (UBOS), Ugandans owned 98% of the 30,000 manufacturing businesses surveyed, the majority of which were micro and small enterprises. However, the manufacturing sector as a whole has several large conglomerates owned by Ugandan–Asians. These entities usually have very diversified investment portfolios including agriculture, manufacturing, and services. There are also many domestic Ugandan firms operating in the same sectors; as well as many foreign firms investing in manufacturing (Obwona et al., 2014). Additionally, there are many firms from the East African region, particularly Kenya.

Firms owned by South Asians have a strong presence mainly because of their historical connection with Uganda. Chinese firms are emerging strongly in several sectors. As shown, government and presidential buy-in are key factors that make Uganda an attractive investment environment for Chinese entrepreneurs. Furthermore, as noted earlier, intervention – particularly by the President – on their behalf can be read in two different ways. On the one hand, it may be viewed negatively as providing undue advantage to foreign investors at the expense of local and upcoming manufacturers. As one analyst contends: "Chinese and Indians have been the beneficiaries of a lot of facilitation on a whim by Museveni. There are no guidelines. He merely directs: 'take these investors and give them land'. And the Asians have avenues for reaching him for favours, which Ugandans do not have".[66] On the other hand, that these interventions have contributed to Uganda's pursuit of its manufacturing ambitions is significant, given it attracts investors that set up factories speedily and create jobs.

65 Interview: 16.08.2019

66 Interview: 25.07.2019

2.3. Other actors

A. Unemployed Youth

Within political circles and among close associates of General Salim Saleh, it is said that in his capacity as Senior Presidential Advisor on Security, he has warned President Museveni that the youth in Uganda constitute a 'time bomb' for the government because of the high level of unemployment. The underlying message is that the government must find ways to create jobs and enable young people – tens of thousands of whom graduate from universities every year – to earn a living. Saleh, it is said, sounded this warning after observing that unemployed youth who have been radicalised by their circumstances have been at the forefront of political challenges, which have rocked the NRM government in recent years. These challenges include numerous riots and acts of civil disobedience such as the "walk to work" protests that paralysed Kampala for several days after the highly-disputed 2011 elections.[67] Manufacturing is seen as a promising sector to create much-needed job opportunities, and so in that sense, it is a major driver behind efforts to attract foreign investors to set up factories, not least in the many industrial parks which are springing up across the country.[68]

However, it is also well understood that industrialisation cannot happen quickly enough to keep pace with the growing numbers of unemployed young people. As a result, in recent years the government has toyed around with several approaches to solving the problem of youth unemployment. One approach has been the Youth Livelihood Fund, which has been riddled with challenges and which, despite the large sums expended, is only a drop in the ocean. One challenge faced by the government is that the youth are both unemployed and unemployable.

Investment in BTVET, including by the private sector, has not measured up to the challenge of skilling the youth by equipping them with practical skills fit for employment in manufacturing entities, whether large industrial establishments or cottage industries. So far, the export of labour has provided the government with an escape window, albeit a temporary one.[69]

67 Interview: 18. 07.2019

68 Miscellaneous interviews and conversations over several years.

69 "70,000 get jobs in Middle East amid cracks in labour export". The Daily Monitor Monday March 12 2018 - https://www.monitor.co.ug/News/National/70000-jobs-Middle-East-cracks-labour-export/688334-4337590-aq3n7u/index.html (accessed: 20.11.2019).


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3.0. SPOILERS

3.1. Poor/non-implementation of policies and strategies

"We do not implement all these beautiful policies we have". These are the words of a very senior official at MoTIC.[70] That Uganda has good policies which MDAs – including the Ministry of Trade, Industry and Cooperatives – do not implement as expected or at all, is now a matter of public knowledge. There are many examples of this across the board. Perhaps most emblematic at the national level was the failure to implement most of the country's National Development Plan (NDPI) objectives. Perhaps equally emblematic, for the purposes of this analysis, is the fact that only 30 percent of the National Industrial Policy of 2008 – which is currently being revised and updated – had been implemented by the time it came up for review in 2018.[71]

The broad vision underlying the NIP was agro-processing, focusing on food processing, sugar, dairy products leather and leather products, textiles and garments, and value addition in niche exports. The NIP's targets were: 25 percent contribution of manufacturing to total GDP; 30 percent contribution of manufacturing to total exports; 30 percent value added in industry; and a 4.0 score in the competitiveness index. Poor implementation led to none of these targets being achieved. In fact, the 30 percent implementation rate was based primarily on policy formulation for sugar, textiles, iron ore and cereals; building four – out of the envisaged 22 - Industrial Parks; and strengthening entities such as Uganda Industrial Research Institute (UIRI), Uganda Development Corporation (UDC), and the Uganda National Bureau of Standards (UNBS).

What explains these implementation failures? There are two major explanations.

One is inadequate funding for MoTIC, as emphasized by a senior official whose role at the ministry focuses on industry: "implementation failures are the result of financial challenges, not lack of skills".[72] The lack of resources makes it difficult for MoTIC to execute even some of its most basic functions, including regulation, inspection and enforcement of standards: "I can't send my people to inspect factories all over the country".[73]

Then there is the perennial weakness of poor coordination, or the complete lack of it, among MDAs with complementary mandates:

Our efforts are too scattered. Responsibility for industrial parks is with the Uganda Investment Authority, which is under the Ministry of Finance. The Uganda Industrial Research Institute is under the Ministry of Science and Technology, not the Ministry of Trade and Industry. The Uganda National Council for Science and Technology used to be under the Ministry of Finance until a year ago.

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70 Interview: 24.07.2019

71 Interview: 13.08.2019.

72 Interview: 18.08.2019.

73 Interview: 18.08.2019.

The Uganda Free Zones Authority is under the Ministry of Finance. This fragmentation of entities and efforts leads to fragmentation in implementation. Implementation can only be effective within a context of strong coordination, which is totally lacking.[74]

There is also the issue of interference and meddling by MDAs in each other's work, and by the executive in the roles of MDAs. Here, President Museveni comes in for particular criticism:

President Museveni is committed, but the challenge for him is how to get things to happen. He is impatient and wants things to happen quickly. He gets frustrated with civil servants and chooses to cut corners to expedite things. When civil servants insist that manufacturers act according to the law and procedures, they run to Museveni and ask him to intervene in matters that technicians ought to handle on their own. There are problems that require technical solutions, but the President applies political solutions. For example, MoTIC must license a factory before it starts working. But the Uganda Investment Authority and the Free Zones Authority can issue licenses and authorise a factory to start working, without reference to MoTIC. [75]

The issuing of permits to factories is supposed to be done by NEMA, MoTIC, and the Ministry of Gender, Labour and Social Development (MoGLSD). Each entity is supposed to focus on different aspects of how a factory is supposed to proceed from construction to opening to management of labour relations. Under normal circumstances, this process is supposed to take some time. However, President Museveni's interest in ensuring that things move quickly to avoid 'frustrating' investors has led to some entities granting authorisation or licenses hurriedly, without performing sufficient due diligence. Fear of frustrating investors also prevents UNBS from executing its duties diligently, as any process that investors find inconvenient could be construed as 'frustrating' them. The same applies to the Uganda Revenue Authority, where some employees have even been relieved of their duties on 'orders from above', on the grounds that they were frustrating Chinese investors, whereas they were simply insisting that the investors settle their tax obligations.

It is partly because of this disregard for due process that some manufacturers are able to engage freely in activities that pollute the environment and that factories are now built in wetlands, in flagrant violation of the law. A key reason is weak capacity for regulation and standards enforcement. While harmful, weak regulation contributes to the speed at which factories are being established across the country, as well as to the range and scope of manufactured and processed goods. The long-term costs of this laissez-faire attitude, though, are likely to be high.

An illustrative example of the long-term cost is Ruma Industries, a vehicle tyre and plastic recycling plant located in Nyimbwa sub-country, Luweero District. The location itself, at a considerable distance from Kampala, should have been enough to raise questions. For many years, local residents complained about the factory producing fumes that pollute the air, and dumping metallic waste at a nearby swamp, which contaminated water sources.

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74 Interview: 18.08.2019.

75 Interview: 13.08.2019.

The complaints began in 2014, but no action was taken - neither by the local authorities, nor their national-level counterparts. It wasn't until June 2019 that NEMA issued an ultimatum (improvement notice) to the factory to stop the pollution, accusing the owners of having "in the last 7 years failed to contain emissions despite several reminders". NEMA demanded "changes, failure of which" the factory would "face legal action, including prosecution or closure". A key concern for NEMA was that the factory had "no record of disposal or transportation of hazardous waste".[76]

Cutting corners in this kind of way may speed up the construction and launching of factories and the creation of jobs. But in the end, it leads to negative outcomes by way of the production of sub-standard goods, environmental pollution, and tax evasion.

3.2. Markets

According to sources at the Uganda Export Promotion Board (UEPB), 85 percent of goods manufactured in Uganda are sold in Uganda. This stems from Uganda having pursued a policy of import substitution for some years, in order to help local manufacturers to develop capacities to compete with regional competitors. Now there is a feeling that they are strong enough to compete on their own terms, and so efforts are underway to increase the percentage of manufactured exports to 25 percent in the short to medium term.[77]

All manufacturers interviewed for this report have their sights set on the regional market as the main outlet for the goods they produce. Indeed, officially the region is regarded as "the natural market" for goods produced in Uganda because both the physical and psychological or cultural distances involved are fairly short. The exact figures of what Uganda exports to which of its neighbouring countries are difficult to get hold of, not least because of the large scale of informal trading that occurs across the largely porous borders. Several requests to the Uganda Export Promotion Board for this data have proved futile.

Informally, however, UEPB sources assert that the main export markets for Uganda's manufactured goods in the region are Kenya and the Democratic Republic of Congo. Until the DRC descended into violent conflict in 2013, and until Rwanda imposed an unofficial embargo on imports from Uganda in February 2019, the two countries were also major markets. Specifically, for Rwanda: "By 2018, Uganda formally exported goods to Rwanda worth USD212 million. Informal exports were in the region of USD45 million. In the past the figures used to be USD18 million in formal trade and USD3 million in informal trade".[78]

Uganda's concentration on regional markets, however, could constitute a source of vulnerability, given the region's political volatility. Rwanda and South Sudan illustrate this. When South Sudan descended into war, Ugandan traders and businesses lost billions of dollars in revenue, with many being forced to

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76 See, "Luweero tyre recycling plant risks closure over emissions". The Daily Monitor, 21.06.2019. https://www.monitor.co.ug/News/National/Luweero-tyre-recycling-plant-risks-closure-over-emissions-/688334-5165490-t6ycx8/index.html (accessed: 12.11.2019).

77 Interview: 17.08.2019.

78 Interview: 17.08.2019

relocate back to Uganda. That led to a huge loss of business in what had come to be seen as something of a 'captive market' for Ugandan merchandise. In February 2019, Rwanda decided to impose an informal blockade on Ugandan goods. According to information released by the Government of Rwanda, this decision was taken on the basis that the Government of Uganda is purportedly involved in activities that seek to compromise its security and political stability.[79]

As a result, millions of dollars' worth of goods which Ugandan manufacturers and traders used to export to Rwanda each month cannot be exported. A source at the Uganda Export Promotion Board intimated: "every month we are losing billions of shillings in foregone exports".[80] A manufacturer whose target market for his products has always been the region, summed up Uganda's vulnerability to political volatility:

Uganda is still a small market. It would help if we had an East African market that is working. South Sudan is at war. The DRC is risky because of insecurity. Rwanda is hostile. The outcome of all this has been to limit the markets to which Ugandan manufacturers can export their products. This in turn impairs growth, as it leaves a lot of idle capacity.[81]

3.3. Lack of skills

Uganda's skills base is very thin. There is no critical mass of skilled scientists and engineers to break into new frontiers in manufacturing: "What we call manufacturers are involved in mere packaging. There are no disruptive technologies involved. Roofings Rolling Mills and Mukwano Enterprises are making utility goods. They are merely following set formulae. The breweries too. There is no research involved". The business, technical and vocational education and training (BTVET) programmes introduced by the government to counter the skills challenge are not meeting the goals originally set for them.

According to one media report, "Vocational institutes have remained largely theoretical since most lack the infrastructure for undertaking practical lessons. Most of them offer low-cost skills training that is mismatched with labour market demands, and most are largely privately owned with insufficient government funding".[82] Also, the general public's negative attitude towards vocational education is an obstacle to raising enrolment rates. Promoting manufacturing, in effect, means promoting technology and establishing capacity for managing it. The lack of skills in Uganda accounts for the collapse of several manufacturing projects. For example, "UIRI sent people to Malaysia to learn how to manufacture ceramics and bamboo products. They came back and made some products at UIRI, but they did not advance beyond the prototype stage. To go from a prototype to manufacturing for the market and creating the market is a task of different magnitude from developing proto-types. It would require the government to create an innovation fund to help with a range of costs".[83]

79 See, for instance: "East Africa should intervene to defuse Rwanda-Uganda war of words". The Conversation March 25, 2019 - http://theconversation.com/east-africa-should-intervene-to-defuse-rwanda-uganda-war-of-words-114202 (accessed: 30.11.2019)

80 Interview: 17.08.2019.

81 Interview: 18.07.2019.

82 "Job creation: Fixing youth unemployment not a lost battle". The New Vision, Thursday, August8, 2019, p. 35.

83 Interview: 30.07.2019.

A key challenge to skills development is that the government generally stands aloof from the business world, and has not taken advantage of the potential synergies that exist. As such, ideas being hatched in training entities such as UIRI and universities and being developed up to prototype level are not evolving into marketable products, because the government does not facilitate and incentivise businesses to work with concept and prototype developers. Additionally, there is the related challenge of funding for skilled scientists working in the domain of product development.

President Museveni has occasionally provided funding to scientists who have appealed to him directly. This, however, has usually resulted in "silos and islands of operation that do not collaborate, let alone take advantage of potential synergies".[84] Also, funding on this basis lacks continuity: "They give you money and in one year they want to see what you have done. Money should be provided for multi-year activities in one go and not withdrawn at the end of a financial year. The "financial year" mode of working forces people to re-direct money or to rush to spend it. If you return money, you are penalised for lack of absorption capacity. So, the following year you get less money and do even less".[85]

3.4. Corruption

Corruption is a key spoiler as far as promoting manufacturing is concerned. As pointed out, manufacturers and would-be manufacturers encounter difficulties in their efforts to access financing. However, some of those who eventually succeed face an additional obstacle: having to run the gauntlet of employees of commercial banks who demand for gratification or kickbacks, which may ultimately amount to significant percentages of the loans that applicants would have been granted. A budding manufacturer narrated his experience:

You pay bribes to get loans. Brokers help you prepare the necessary documents. But for you to get money, you have to make sure that the loan officers are well oiled. You may want 1 billion shillings and the loan officers want 50 million. It adds to your cost. This is not the case with UDB, though. It is the commercial banks.[86]

Manufacturers also accuse the Uganda Revenue Authority of, as one interviewee put it, being "an extortionist machine". The specific charges as outlined by another manufacturer, are as follows:

When you're starting out, you cannot have everything right. They come up with figures and they say: 'given what you're doing, you owe us this much'. They quote high figures and then say: 'let's talk'. So, you're compelled to meet them. They will then offer to reduce the amount or write it off in return for bribes. They should be helping us, but instead they extort money from us. When they come to you, you are in a weak position because they know more about taxes than you do.[87]

84 Interview: 30.07.2019

85 Interview: 30.07.2019.

86 Interview: 18.07.2019.

87 Interview: 18.07.2019.

A manufacturer who was just starting out, for example, discovered that they had to part with money in irregular payments to different types of government officials:

I started to build my factory in 2012. I had to fulfil so many requirements. Before you fulfil such requirements, you cannot start building. But the requirements are very costly. For example, you have to hire a consultant to prepare the documents that the National Environment Management Agency (NEMA) requires you to submit. But the consultancy fees must include "something" for NEMA officials. Building permits also entail money to the local council in the form of bribes, in addition to official fees. You expect to get support with installing electricity, but you get none at all. You pay for and install your own transformer which, nonetheless, remains UMEME property.[88]

The Uganda Industrial Research Institute (UIRI) which has contributed significantly to efforts to promote manufacturing through hosting and incubating budding manufacturers, is not spared from criticism on account of corrupt practices and mismanagement within the organisation. For example, it is said that a good number of the 'incubatees' are relatives of a senior executive at UIRI, and a number of the institute's units are in his hands. Also, up to 80 percent of UIRI's projects are said to be located in the same executive's home region. A specific example of his alleged nepotism is a 2.5-billion-shilling juice facility located on the premises of UIRI, which ended up in the hands of a close relative after everyone else was blocked from using it. There are also claims about an innovation fund which did not produce the required results because "the money was spent arbitrarily. Some money was given to some people and then the rest was spent as pocket change".[89] Apparently, "There are many anonymous letters to the Inspector-General of Government", about corruption at UIRI. "Museveni knows all these things but so far he has not acted", and officials at the Office of the Prime Minister, which is supposed to monitor MDAs, "just sit in their offices and wait for reports. They don't know what is on the ground".[90]

There are some grounds for asking why, despite these failures at UIRI, its top leadership has managed to remain in office. The reasons are complex. One respondent provided this perspective:

Museveni has a lot of interest in UIRI. The way to gauge his interest in any entity is to look at four things: who he appoints to head it; who the real power in the entity is; where he inclines when fights break out and, finally, who holds the budget. When UIRI was still under the Ministry of Trade, X and Y clashed a lot. A Ministry of Science and Technology was created and UIRI went there. Both X and Y were powerful. Politics triumphed."

3.5. Raw materials

As a predominantly agricultural country, Uganda would do well to promote manufacturing that makes use of the country's existing agricultural resources. Agro-based industrialisation is said to demand smaller capital outlays because processing plants are easy to set up, given that they use easy-to-manage, simple technologies.

88 Interview: 18.07.2019.

89 Interview: 15.08.2019.

90 Interview: 15.08.2019.

This would therefore be the best entry point into manufacturing in Uganda. There are notable success stories that seem to support this view. The milk industry in South West Uganda is a good example (Mbabazi, 2005). The government created the right environment for manufacturers to invest, and the private sector did the rest. Today, Uganda exports milk products to the USA, Asia, and the East African region.

There are, however, challenges that must be tackled if the agricultural sector, which suffers from the same coordination, funding and capacity challenges as other sectors[91], is to provide the raw materials for manufacturing in the right quality and quantities:

Post-harvest handling is still poor. For example, despite being a good producer of maize, Uganda does not have a system of storage facilities (silos) for handling the grain following bumper harvests. Consequently, maize processors have to contend with poor quality grain because of poor post-harvest handling.

Access to finance remains a major challenge. Currently, there is no mechanism for lending to SME farmers, nor is there follow-up. The breweries have identified individual farmers with whom they work. Among other things, they help them with extension services. This is an example of a best practice that could be emulated.
Farmers are not adequately organised to supply processors with quality products. For example, the Soroti fruit factory cannot get farmers to supply it with fruit. A strong cooperative could have solved this problem by aggregating the fruits, sorting them for quality, and supplying the factory.

Plants established in different parts of the country to process mangoes into juice and juice concentrate have failed to source adequate amounts of mangoes to become fully operational. The real problem, however, is seasonality, whereby there is a glut of fruit during harvest season and then a significant shortage during off-season. There is a need to facilitate farmers to produce off-season.

The abattoir established in Bombo by an Egyptian investor has failed to source the right kind of animals for slaughter. The entrepreneur wants animals of a specific description in terms of age, weight, etc. However, there are not enough producers of cattle in Uganda to keep the factory supplied. As a result, it is operating below capacity. Experts reckon that what needs to happen for abattoirs such as this one to function, is for Uganda to upgrade its livestock genetics to allow for animals to attain the required weight at a specified age.

One key bottleneck in the agricultural sector is politics. The failure to allow the sector to formulate, draw up and implement policies consistently without political interference has done a great deal to impair its modernisation and efforts to make it more productive. The politics of poverty reduction – entailing the establishment of ad hoc schemes such as Operation Wealth Creation, the Youth Livelihood Fund, and the Women's Entrepreneurship Programme – have combined to weaken the Ministry of Agriculture considerably and disrupt its designated role of policy formulation and guidance for the whole sector.

91 *See, for example: Golooba-Mutebi & Vecantachellum, 2018.*

Examples of political interference include the so-called poverty reduction tours by the President, during which, in the name of fighting poverty, he short-circuits the work of experts in the agricultural sector by introducing new schemes that usually run counter to established policy.[92] While this is politically useful for him in that it translates into electoral support, it introduces substantial confusion in the sector.

3.6. Competition from (cheap) imports

Imports from around the EAC, mainly Kenya, but also farther afield, have long been a key impediment to the growth of Ugandan manufacturers: they have contributed to the collapse of some, and have been the cause of decisions by others not to invest in manufacturing goods that couldn't possibly compete with cheaper imports. Thanks to spirited efforts by the Uganda Manufacturers' Association, however, the government has recently taken to emphasising "local content" in all infrastructure projects, large and small. Underlying these developments is the belief that in addition to providing a market for local merchandise currently being produced, these measures will help grow production capacity, so that current idle capacity is put to use. Enhancing idle capacity utilisation means more resource use, increased employment, and a greater contribution to GDP growth. These measures were introduced at a time when many factories had been operating below capacity, with some laying off workers and unable to create employment. So, in pushing for local content, UMA was seeking to improve not only the fortunes of its members, but also those of the country.[93]

The "constant engagements" they have had with the government have borne fruit by way of the development of guidelines for preferential treatment of Ugandan manufacturers, with their participation. The concessions that manufacturers have long sought have to do with local companies enjoying preference over foreign manufacturers, so long as the former meet the EAC rules of origin. PPDA has already provided the guidelines for procurement, which MDAs now follow in awarding contracts.

92 *"Museveni summons NRM MPs over wealth creation". The New Vision, Monday, 15 July 2019 - https://www.newvision.co.ug/new_vision/news/1503555/museveni-summons-nrm-mps-wealth-creation (accessed: 18.11.2019).*

93 *Interview: 17.08.2019*

4.0. CONCLUSIONS AND RECOMMENDATIONS

4.1. Conclusions

It is clear from the foregoing discussion that although there is a desire within the government to promote structural transformation of the economy, and despite manufacturing being at the centre of these ambitions, there are serious challenges that need to be overcome. The main challenges that the manufacturing sector faces are connected to the lack of actual commitment within the government to doing those things that would promote and facilitate manufacturing. As we have seen, these challenges include inadequate funding of the relevant MDAs; poor coordination among government institutions; interference that deflects the relevant MDAs from doing what they are supposed to do or doing it as envisaged; non-implementation of policies and strategies; lack of skills; corruption; a shortage of raw materials; political instability in the region and its disruption of markets; and competition from cheap imports. Another challenge is the lack of mechanisms to hold the government to account where it fails to deliver on the commitments made to manufacturers.

While manufacturers have fairly strong ability to advocate for policy change through the Uganda Manufacturers Association, they cannot hold the government to account when it reneges on the promises it has made.

4.2. Recommendations

The above not withstanding, there are possibilities for boosting the fortunes of manufacturing in Uganda. There are domains where necessary change is subject to political phenomena that are critical to preserving the current political settlement. Hardly anything can be done about those in the current political dispensation. This calls for realism in making recommendations, based on a careful reading of what is feasible and what is not. In terms of what is feasible in a context of fairly minimal synergy, MDAs that are directly involved in promoting and facilitating investment on the one hand, and manufacturers and the private sector in general on the other, can be facilitated to work together to build on the modest successes achieved so far. Joint efforts should focus on four key aspects:

4.2.1. Improving infrastructure for manufacturing.

Limited infrastructure is a major challenge to Uganda's ambitions to develop the manufacturing sector. Specifically, there is a need to improve the ability of MDAs that work on investment to design, plan and advocate for the development of strategic infrastructure such as industrial parks, as well as to better dialogue with manufacturers and the private sector in general on matters to do with the delivery of infrastructure.

4.2.2. Improving investment promotion, facilitation and aftercare.

As shown, performance by the UIA in investment promotion, facilitation and aftercare is woefully inadequate at the moment and requires improvement.

4.2.3. Supporting access to finance by the private sector in general.

As shown, access to finance is a critical challenge – especially for SMEs and would-be manufacturers without a solid track record. Recapitalising the Uganda Development Bank to provide affordable loans and financing to projects in manufacturing, which commercial banks do not want to finance, would be a boost to the sector.

4.2.4. Building capacities and plugging the numerous capacity gaps in manufacturing specifically, but also throughout the private sector.

As shown in this paper, training institutions in Uganda are not equipping the future employees of manufacturing entities with the requisite skills, especially in technical and managerial fields. It is imperative, therefore, to design training programmes that respond to the needs of the private sector.

FOR PURPOSES OF CONFIDENTIALLY

THE LIST OF INTERVIEWEES IS NOT AVAILABLE.

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