THE REPUBLIC OF UGANDA

National Industrial Policy

A Framework for Uganda's Transformation, Competitiveness and Prosperity

MINISTRY OF TOURISM, TRADE & INDUSTRY
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January 2008

FORE WORD

Transformation of Uganda's economy is one of the fundamental goals and commitment of the National Resistance Movement Government.

Uganda has achieved an impressive record of sustained economic growth and stability over the last two decades of NRM administration. The economic gross domestic product (GDP) growth rates have been sustained at an average of over 6% per annum, with single digit annual inflation rate; and the proportion of the population living below the poverty line, reduced from 56% in 1993 to 31% in 2006. This is a commendable effort by standards of any developing country, and far above the Sub-Saharan Africa average of 2.4%.

However, Uganda's is still classed as "undeveloped and third world". Uganda's households are still relying on subsistence agriculture. The persistency of the above situation limits the tax-base, the purchasing power, employment, and generally inhibits economic transformation. Consequently, the "National Industrial Policy; A frame work for Uganda's Transformation, Competitiveness and Prosperity" provides long-term perspectives needed for Uganda to achieve sustained transformation of the economy. This is one of the fundamental goals of Government programme of PROSPERITY FOR ALL and was clearly articulated in the NRM manifesto 2006. Uganda's economic transformation will critically hinge upon industrialization; and the application of Science, Technology, and Innovation; as the main driver and prime agent. The National Industrial Policy contains a framework to guide specific policy actions and offers policy makers, Government functionaries, and private sector operators a coherent direction to guide co-ordinated performances and implementation of the policy.

I am aware that, the National industrialization policy is a product of extensive and prolonged consultations involving Government officials, private sector executives, academia, donor community, and mass media. In this sense the process has been as important as the product in building consensus on the measures and strategies needed and set out to meet Uganda's vision. The process has also been able to align both private and public sectors in a solid partnership for implementing and executing this policy document.

Finally, I am pleased to present to the people of Uganda, The National Industrial Policy; and I appeal to all the stake holders to ensure its speedy implementation to transform Uganda from a peasant society into a modern, industrial, and prosperous country.

For God and my country

Yoweri Kaguta Museveni

PRESIDENT OF THE REPUBLIC OF UGANDA

8th February, 2008

ABREVIATIONS & ACRONYMS

CICS	-	Competitiveness and Investment Climate Strategy
DIT	-	Department of Industry & Technology, MTTI
FDI	-	Foreign Direct Investment
MTTI	-	Ministry of Tourism, Trade & Industry
COMESA	-	Common Market for Eastern and Southern Africa
MTCS	-	Medium Term Competitiveness Strategy
NISSP	-	National Industrial Sector Strategic Plan
ICT	-	Information and Communication Technology
NEMA	-	National Environmental Management Authority
NGOs	-	Non Governmental Organizations
NPA	-	National Planning Authority
NRM	-	National Resistance Movement
PEAP	-	Poverty Eradication Action Plan
PIRT	-	Presidential Investors Roundtable
PMA	-	Plan for Modernization of Agriculture
PPP	-	Public Private Partnerships
PSFU	-	Private Sector Foundation Uganda
SMEs	-	Small & Medium Scale Enterprises
SMI's	-	Small and Medium Industries
EPZ	-	Export Processing Zones
UEPB	-	Uganda Export Promotion Board
UDC	-	Uganda Development Corporation
UIA	-	Uganda Investment Authority
UIRI	-	Uganda Industrial Research Institute
UMA	-	Uganda Manufacturers Association
UNBS	-	Uganda National Bureau of Standards
UNCST	-	Uganda National Council of Science & Technology
URA	-	Uganda Revenue Authority

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1.0 VISION AND OBJECTIVES

1.1 Introduction

1 Over the decade, 1989/90-98/99 Uganda's economic growth performance averaged an impressive rate of 6.9% per year; which was far above the Sub-Sahara average of 2.4%. During this period the share contribution to GDP by industry and manufacturing increased from 11 to 20%, and from 6 to 10% respectively. During the same period the share of industrial output in GDP increased steadily. Over the period 2001/2 – 2005/6, the share of industry to GDP remained in the region of 18.9% and 20.5%. In the same period, the contribution of industry to GDP growth rate rose from 1.5% in 2001/2 to 2.1% in 2004/5 before declining to 0.9% in 2005/6. This undesirable decline is largely attributable to power shortages. Uganda's performance with regard to the manufacturing sector and industry as a whole, though rapidly improving, has remained below the sub-Saharan average over the 15 years

2 Manufacturing in particular has lagged behind overall growth of the industrial sector, though it did rebound slightly in 2006-07. Electricity costs and outages continue to impact more adversely on manufacturing, especially in those sub-sectors, which produce perishable goods that require refrigeration, or have heavy demand for continuous power supply.

3 Industrial development is an integral and important part of the Government's overall development strategy. This development strategy is to be achieved through transforming Uganda into a modern and Industrial Country through, among other things; adding value by processing to reduce post-harvest losses and by increasing exports of higher value products, especially from agricultural and mineral resources. Industrialization also offers greater prospects for increased employment, more export earnings, wider tax base, increased purchasing power, increased integration with Agriculture, product diversification, greater efficiency, and technical skills for modernization and higher productivity throughout the whole economy. While significant growth has been registered over the last 15 years, the recent manufacturing performance has been less than average. This reflects, in part, the continuing presence of binding constraints, especially insufficient hydro electric power, poor transport infrastructure and weak institutional frame work for industrial development. In turn, these constraints have resulted in less investment in the sector and less adjustment and integration along the value chains.

4 The National Industrial Policy sets out the strategic direction for industrial development in Uganda for the next ten years and the set principles are expected to be sufficiently robust to guide Uganda well beyond that period. The policy is a product of wide consultations within the Ministry of Tourism, Trade and Industry, as well as involving other Ministries, institutions, academia, the Media, NGO's, and the private sector. The consultative process provided an in-depth understanding of the country's challenges in the field of industrialization and the necessary strategies by the people

involved. The policy addresses the constraints as well as priorities regarded as key to Industrial development in Uganda.

5 The industrial sector occupies a central position in the Government's vision and the policy actions are geared towards economic and social transformation. The realization of this vision critically hinges upon the competitiveness and growth of the Industrial sector. Sustainable industrialization provides a key factor in the overall economic and social transformation of Uganda and presents greater prospects of a high rate of sustainable growth.

1.2 Policy Vision

6 The vision of the Policy is to build the industrial sector into a modern, competitive and dynamic sector fully integrated into the domestic, regional and global economies.

1.3 Policy Objectives

7 The extent to which industrialization fulfils its role and contributes to the overall development of the country will depend on the strategies and policies which Uganda pursues. Consequently the principle focus of this policy will be:-

(i) Exploiting and developing natural domestic resource- based industries such as petroleum, cement, and fertilizer industries; and promoting competitive industries that use local raw materials.

(ii) Agro-processing; focusing on food processing, leather and leather products, textiles and garments, sugar, dairy products, and value addition in niche exports.

(iii) Knowledge-based industries such as: ICT, call centres, and pharmaceuticals that exploit knowledge in science, technology and innovation.

(iv) Engineering for capital goods, agricultural implements, construction materials, and fabrication / Jua Kali operations.

8 The specific objectives of the Industrial Policy will be to:

i. Create a business friendly environment for private sector-led industrialisation in which industries will develop, improve productivity and the quality of products through, inter alia, creativity and innovation and become more competitive in the global economy.
ii. Improve infrastructure development for effective and efficient industrialisation program
iii. Encourage and foster innovation, entrepreneurship, adjustment and adoption of best management practices in the quest for improved competitiveness.
iv. Create a framework that supports joint participation of the public and private sectors in the development of scientific and technological competencies for the

production of more and higher value added goods and services for domestic consumption and export; widen the tax base; and increase integration with Agriculture

v. Facilitate improved supply chain efficiency and market responsive product and brand development.

vi. Encourage foreign direct investment in industry and industry related services.

vii. Promote environmentally sustainable industrial development to reinforce national goals of long-term growth and development.

viii. Support the growth and development of a skilled and productive labour force and to ensure that a body of experienced entrepreneurs and trained managers are particularly focused on industrial development.

ix. Promote safe work place practices in all industry sub-sectors.

x. Promote the participation of disadvantaged sections of society in industrial development activities.

xi. Create support systems for sustainable micro and small industries development.

xii. To create jobs for the widest section of the population.

1.4 Basic Target Indicators

9 Policy vision and objectives will be fully realised over the medium to long term period. However, in the 10th and final year of implementing this policy, target indicators for achieving the vision and objectives will include:

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

** Manufacturing is the physical or chemical transformation of materials or components into new products. Most often, this is done by power driven machines, in a factory.*

** Industry is an organized economic activity connected with the production, manufacture, or construction of a particular product or range of products for sale. This includes all economic activities that fall in the following major categories: mining, manufacturing, construction, electricity, gas and steam.*

** The Global Competitiveness Index is a comprehensive and respected assessment of countries' competitiveness, offering invaluable insights into the policies, institutions, and factors driving productivity and, thus, enabling sustained economic growth and long-term prosperity.*

2.0 SITUATION ANALYSIS

10 A strategic and effective industrial policy has to recognize the environment, the resources and the general context in which enterprises have to operate. This section of the policy describes some of the main features of the existing environment which underline it. The country's major strengths include a significant natural resource base, committed and stable political leadership, a clear long term vision for sustainable economic growth, a stable macro economic policy setting, recognition of the importance of higher education and human skills, effective and developed public–private sector partnership for investment, a strategic locational advantage with regard to the Southern Sudan and Great lakes regional markets of Eastern Africa and an improving institutional framework.

2.1 Strengths

2.1.1 Natural Resources

11 Uganda has a total area of 241,038 sq km of which 85% is land while 15% is under water. Over 21% of the land is arable and most of it is fertile soil and well watered with relatively reliable rainfall and numerous creeks and rivers. The terrain and rivers provide a unique environmentally friendly hydro-electricity generation. Oil and gas resources have been discovered in the western part of the country. Currently there is no oil production, but proven reserves of oil look likely to exceed 100 million barrels over the next two years, with production of 20,000 barrels per day by 2010.

12 Geo-scientific investigations confirm Uganda has a diversity of minerals including phosphate, gold, vermiculite, copper, cobalt, limestone, clay, iron ore and salt. Recently completed airborne geophysical surveys have generated high quality data that's of growing interest to major international mining companies. Currently agricultural production is the backbone of Uganda' economy. Production is diverse and covers coffee, tea, cotton, sugar, fish, floriculture, maize, pineapples and livestock. The branding of Uganda is a country gifted by nature.

2.1.2 Labour force and Labour markets

13 One of Uganda's major strengths is in the flexibility of its labour markets where the country is ranked 8th in the world and 1st in Sub-Saharan Africa on the 'Doing Business Database' in terms of the 'ease of employing workers'. The ranking on availability of scientists and engineers in Uganda is less conspicuous (82 out of 125 countries) and below Kenya and Tanzania. This ranking is similar to that for the 'brain drain' (91 out of 125). While labour markets in Uganda are flexible this does not seem to flow through to productivity where the country is currently ranked just 109 out of 125 countries in terms of relationship between pay and productivity. Uganda also ranks relatively high on the private sector employment of women (8th in the world), indicating businesses provide women with almost the same opportunities as men to rise to positions of leadership.

14 Uganda's labour force increased from 9.8 million in 2002/03 to 10.9 million persons in 2005/06 representing an annual growth rate of 3.6% and would be now approaching 12 million. Over 65% of people are employed in agriculture; 25% in the

service sector; and 10% in the industrial sector. It's inevitable that more people will move from agriculture to the service and industrial sector, as the structural transformation of the economy takes root.

15 The health, skill, and motivation of the workforce is a major driver of industrial development. Most of the options for adding value require enhanced skills of a technical, marketing, financial and general management nature.

2.1.3 Liberal Policy Environment.

16 In the 1990's an entire liberal economic reforms were introduced to create an enabling environment for the private sector. Such reforms included the effective implementation of the investment Code of 1991, the gradual privatization of public enterprises, the reduction of import tariffs, elimination of licensing requirements, lifting of import bans, the elimination of export taxes, the harmonization of tariffs within the East African Community, and trade liberalization in general. As a result; annual growth rate of GDP growth increased, foreign investment increased substantially, and there was diversification of the productive as well as the export base. This liberal policy environment helped to achieve the following:

2.1.3.1 Stable Macro-economy

17 The macro-economic environment in Uganda is rated as strong and stable. The World Bank noted macro-economic stability as a significant achievement of the economy with inflation controlled at single digits since the mid-1990s.[1] The Global Competitiveness Report notes the positive performance in the real effective exchange rate over the last decade though this may have been reversed over the recent years with the nominal exchange rate rising and inflation creeping up to over 7% in 2006-07. Inflation is expected, to decline towards the target of 5% over 2007-08.

2.1.3.2 Public-Private Sector Partnerships

18 In recognition of the growing linkages between the public and private sectors, the Government is enhancing the regulatory support to enable public-private sector cooperation and increased investment by the private sector in infrastructure and delivery of higher quality services. Partnership with the private sector, as an engine of growth, is at the centre stage of Government policy development, implementation and monitoring.

2.1.3.3 A growing services sector

19 Over the last decade the share of the services sector in GDP has continued to grow although it is still slightly below that of the Sub-Saharan group as a whole. The growth rate of the services sector has been over 8% per year for the past 5 years. The transport and communications are among the sub-sectors that experienced exceptional growth of over

[1] World Bank 2006, '*Diagnostic Trade Integration Study*

20% during the financial year 2006-07. This investment will lift or at least moderate the severity of constraints on industrial development, especially in electricity and transport.

2.1.4 Political leadership and Commitment for industrial development

20 The political leadership in Uganda is unequivocally committed to industrialization, economic transformation, modernization and diversification of the country's production. As a reflection of this, the NRM Government considers industrial transformation as one of its overriding and critical policy priorities.

2.1.5 Research and Development

21 An unusual feature of Uganda is the country's relatively high rating on innovation in the Global Competitiveness Report. Unusual, because developing countries tend to be positioned in what's called the *factor driven development stage* where they compete more on endowments of natural resources and unskilled labour. Apart from intellectual property protection and utility patents (zero in 2005) the country scores relatively high on all other sub-components of innovation, though tertiary enrolment is too low (just 3% of the total, leaving the country with a rank of 106 out of 125 countries). The quality of scientific institutions in Uganda is rated highly at 34th in the world, second only to South Africa in the Sub-Saharan country group and above such countries like China and Brazil. Expenditure on R&D is 0.8% of GDP which is the same as South Africa, but that does not enable many researchers to be employed and there are just 24 researchers employed per 1 million people in Uganda compared to over 300 in South Africa. It is therefore important for Uganda to preserve its high rank in scientific institutions as well as commercializing the prototypes developed.

2.2 Constraints and Challenges

22 The 2006 Diagnostic Trade Integration Study and the 2007 Country Economic Memorandum identified a number of constraints with electricity judged to be the most severe impediment followed by inadequate infrastructure and finance. At the sector level specific constraints were identified for coffee, cotton, fish, floriculture, tourism and others services. Sectoral constraints can be traced back to gaps in research and development (e.g. coffee wilt disease and low cotton yields), not just the level of expenditure on research, but also gaps in the institutional framework that enables identification of research priorities, greater commercialization of research and exploitation of advanced technologies. Trade policy, trade support services and trade institutions were also identified as needing attention.

The final category of constraints is at the enterprise and managerial levels. Access to international markets is increasingly constrained by inadequate managerial skills in quality management and compliance with international standards. Hazard Analysis and Critical Control Point (HACCP) is now a requirement for entry into many international supermarket chains and adoption of formal trace-ability systems is emerging as a barrier for international trade in agricultural products. Each of the challenges and constraints identified above are elaborated below.

2.2.1 Globalization

23 Despite the impetus from membership in the East African Community and COMESA, the pressure for adjustment from global suppliers of higher quality and lower cost goods and services will continue and most likely intensify. The faster the regional markets grow the more they will attract the interest of low-cost global competitors. Global business models have little or no respect for regional trade barriers that frequently have more impact in diverting trade than creating it. Globalization now extends throughout the value chain from innovation, R&D, design, production and processing through to services, including management. Even multi-national enterprises are feeling the pressure of globalization and vacating regional positions to those with global strategies. This presents a challenge to the traditional locally focused firms, but also an opportunity to join global networks and to exploit the benefits of low cost supply in areas like retailing and banking where local competition is often limited.

24 Positioning in this globalize economy remains all-important for gaining market access and capacity to adapt to rapidly changing technologies and markets. For Ugandan firms to satisfy the requirements of a global network they will need to improve their capacity to produce reliable quantities of high quality, low cost goods and services. More than this, however, they will often have to fit into a global three-tiered structure comprising the lead firm, often a multi-national enterprise, a 2nd tier consolidator or sub-assembly operation, often a regional structure, and a 3rd tier component provider. That's the challenge of globalization. It's not applicable to each and every firm, but it's highly relevant to those firms that are responsive to market requirements and have a high growth strategy. Supply chain membership at the global level has more onerous demands for cost and quality competitiveness. In turn, this has implications for skill levels and education and training in technical, marketing, financial and general management.

2.2.2 Low Institutional development

25 The Global Competitiveness Report (GCR) rates institutions as the most notable competitive disadvantage for Uganda. Out of 29 sub-components in the GCR Uganda rates above 100 out of 125 countries in more than 15 components. While the country rates relatively well on judicial independence (60th) and the efficacy of corporate boards this is overwhelmed by poor ratings in other areas including favoritism and irregular payments in public utilities and contracts.

Institutional strength affects many factors that feed into competitiveness including the general cost of doing business, difficulties to establish a business and register property, credit ratings, administrative costs and service quality, taxation and the costs of compliance with laws. It is estimated that for every dollar the public sector spends in administration of a regulatory activity the private sector spends $20 in complying with that regulation.

2.2.3 Inadequate Infrastructure

26 According to the World Competitiveness Report the second pillar of competitive disadvantage for Uganda relates to infrastructure where the country ranks poorly on the

quality of electricity supply and port and railroad development, with road quality adding to the disadvantages. It is encouraging to note that, Uganda is among the best energy endowed countries on the continent that could be exploited. New investments in the Bujagali Power Project (250MW), as well as the Heavy fuel oil (HFO) plants, and cogeneration (from sugar bagasse); and plans to start off on Karuma and Ayago Power projects will add an additional 610 MW by 2011. This offers great optimism for the energy industry as well as investment. Access to serviced industrial land and reliable and efficient infrastructure are also currently critical constraints to investments.

2.2.4 Knowledge management

27 Knowledge management is a critical requirement for competing internationally in an environment charged with constantly changing markets, technologies, regulations and management practices. The fishing industry in Uganda is an example of how a cluster can bring together a diverse set of knowledge and skills to create a competitive advantage by sharing what they know. The Lake Victoria fishing cluster is recognized internationally for its consolidation and coordination of knowledge and resources in fisheries stock management, food science, food technology, chemistry and bio-chemistry, marketing and general management. The challenge for Uganda is to extend the Lake Victoria fishing industry lessons and messages to other industrial sub-sectors.

2.2.5 Low agricultural productivity

28 The growth prospects for the manufacturing sector are closely linked to the competitiveness of the underlying raw material suppliers, especially food and fibre. Uganda's low on-farm agricultural productivity limits the cost competitiveness of agricultural raw material available for industrial processing and full exploitation of the agricultural potential of Uganda. High post harvest losses are also recorded in most of the agricultural products. Quality management of this material is also a constraint. However several value chains (coffee, tea, fisheries, and dried fruits) have demonstrated that capacity is available to improve productivity. Strategic programmes such as NAADS, and Prosperity for All; are being implemented to address this constraint. In addition, on-farm Research & Development will also help lift this constraint. This will need carefully targeted research projects and effective extension service to enhance adoption.

2.2.6 Shortage of Industrial finance

29 Limited financial resources have far reaching implications for industrial development. In Uganda, industrial financing can be obtained from commercial banks at very high interest rates and with short maturities. Although the Bank of Uganda has introduced a number of initiatives to help domestic enterprises, especially those with export potential, the impact remains limited. The wide margin between borrowing and lending rates is due to a combination of institutional weakness, low depth in the credit market, limited credit information for lenders and inadequate contract enforcement. The margin between borrowing and lending rates in Uganda is among the highest in the region, which discourages private sector borrowing for industrial development.

30 The financial constraint is magnified further when it comes to the servicing of start-up businesses, which are often at the forefront of entrepreneurial activity and innovation. The Uganda Development Bank has received a significant 2 billion shillings of capital investment from the Government over the past two years and steps have been taken to improve its administration and commercial capital raising potential.

31 Government is yet to invest adequately in Industry & Technology and meet the AU set target of allocating at least 1% of GDP to this sector. While Industrialization is recognized as the engine and driving force for sustainable economic development and transformation, international donor financing and National budgetary allocations have remained inadequate and meager.

2.2.7 Industrial development climate

32 The easier it is to do business the easier it is to invest. Uganda has a ranking of 107 out of 175 countries in the 2007 World Bank rankings on Doing Business compared with Kenya at 83, South Africa 29, Namibia 41, and Botswana 48. Current private sector development projects are expected to lead to an improvement in Uganda's ranking on the ease of doing business but it is relevant to remember other countries are also implementing reforms to improve performance in the ease of doing business. Thus, to achieve an improved rating the speed of reform becomes a priority.

2.3 Opportunities

2.3.1 Regional and Global Markets

33 The East African market of 120 million people shows promise of growth. At present this market is growing fast for low cost goods and services. Uganda is also a member of the Common Market for Eastern and Southern Africa (COMESA) which is a market with a combined GDP of over US$ 102 bn. The regional markets are the fastest growing export destination, and most of the country's manufactured goods are destined for these markets. For Uganda the benefits are immediate and significant due to its geographic position in the middle of the market. It is, however, a transitory situation. In addition, global markets opportunities such as AGOA, EPA; are available for Uganda export products. As incomes grow it's inevitable that consumers will turn towards higher quality goods and services. And as awareness grows about the regional market lower cost suppliers will enter it.

34 Both sub-regional groupings are potential high growth markets for industrial products and are currently the main export markets for Ugandan manufactured goods. Uganda will therefore take advantage of the volume opportunity, and also encourage manufacturers to re-invest the returns into technology, marketing and management skills and practices that enhance quality and enable lower cost production.

2.3.2. Location of Uganda as a Regional Hub.

35 Uganda's strategic location has huge market potential in Southern Sudan, Eastern Congo, Burundi, Rwanda, and Northern Tanzania. Because of close proximity, Industrial products made in Uganda can compete favorably in these neighboring regional markets.

2.4 Threat

2.4.1 HIV/ AIDS and Malaria

36 There is evidence that HIV/AIDS and Malaria are having a negative impact on industrial production. There are about 530,000 people living with HIV/AIDS in Uganda. It is estimated that about 30-40 per cent of absenteeism is related to HIV/AIDS and Malaria. This means that in the long run HIV/AIDS and Malaria could cut the supply of labor for industry, reduce incomes for many households, and thereby decreasing the demand for non-farm products with the exception of medicine and health products. HIV/AIDS and Malaria could therefore, impact negatively on the production and sale of industrial goods. The shift in consumption patterns could also seriously affect the structure of industry and industrial production.

3.0 KEY POLICY CONSIDERATIONS

37 This section outlines a number of strategic choices which Government has taken into consideration in the course of developing this policy. They include the quality of management, as well as the level and type of market intervention, the growth and investment implications, the nature and the extent of public-private-partnerships.

3.1 Industrial change management

38 In developing the National Industrial Policy, Government has taken into consideration the need to encourage resources to respond readily to market signals and move towards their most productive use. This policy emphasizes the need to minimize resistance to market signals in the course of resource allocation. Government recognizes that Uganda rates relatively highly on several market efficiency indicators in the Global Competitiveness Report (especially on labour market flexibility, foreign investment freedom and extent of bureaucratic 'red tape'.), though there are also areas of weakness in the form of regulatory standards, trade barriers, time to start a new business,; processes involved to register a business, pay taxes, enforce contracts, and close business.

39 It is not the intention of Government to shelter industries from the market forces of change. High levels of protection in the past not only produced disappointing results for industrial growth, but they also damaged consumer welfare and industries using the output of protected firms. Resistance to change in today's world also leads to isolation at a time when the exact opposite is required with networks and partnerships along value chains. This industrial policy is in line with government's full commitment to positive policies that encourage enterprises and scarce resources to move to their most productive position. It's a policy that not only stimulates investment in the most productive sectors and enterprises, but also protects the consumers and the poorest in particular.

3.2 Government Intervention to correct market failure

40 Government is committed to supporting private sector development as an engine of growth within a market environment, as a source of dynamism and competitiveness to drive production. This must be combined with an efficient and responsive public sector for sound macro-economic policies, regulatory framework, good business climate, effective control of market failures and distortions, and ensuring equitable distribution of benefits for all those engaged in business activities.

41 Government will therefore intervene to address situations of market failure when the benefits of the intervention exceed the costs. All future interventions aimed at addressing incidences of market failure will be premised on complete understanding and awareness of what drives market efficiency and the policies and conditions that can facilitate efficiency improvement.

3.3 High economic growth & the investment implications

42 Government is aware that the path to high economic growth encounters both challenges and rewards. The rewards are more obvious in terms of higher disposable incomes and welfare. The challenges remain however, in the form of capacity constraints, especially with infrastructure and investment. Achieving a significant growth in investment and maintaining the quality of investment are both important. The key success factors for this policy therefore include:

(i) accelerating the pace of private sector investment which is a key driver to industrial growth;
(ii) identifying high return public infrastructure investment, which reduces business costs, increases productivity, and encourages job-creating private investment – especially by exporters
(iii) A government big push in terms of a budgetary allocation of at least 1% of total GDP to the industrial sector. This should facilitate establishment of the necessary supportive public investments to back stop private investment in products or services, which can be competitively exported, create jobs and stimulate innovation. This commitment was made by African Union heads of state summit in February 2007 in Addis Ababa Ethiopia.

43 Government also recognizes the close association between the growth of per capita income and growth of manufacturing and industry. This association has been attributed to economies of scale, faster capital accumulation, more opportunities for labour specialization and embodied new technologies in manufacturing and industry. In addition to this, fast growth in manufacturing and industry induces a rise in labour productivity outside manufacturing due to the shift of labour from sectors with diminishing returns to labour (e.g. agriculture) to the sector with increasing returns.

3.4 Strengthening and deepening public-private-partnership

44 Government recognizes that public-private-partnerships (PPPs) are increasingly becoming significant with regard to delivery of infrastructure projects, as well as public service delivery. This policy prioritizes the strengthening of PPP in order to ensure a leading role for the private sector in the country's industrial transformation and economic development. The key consideration is to achieve government commitment of creating a vibrant and competitive industrial sector with an enabling environment in which the private sector can lead growth.

3.5 Innovation and commercialization

45 Innovation is at the heart of product development, value addition and entrepreneurship. It involves research and development, product diversification and commercialization and modification to fit into supply chains and to meet market requirements. It is reflected, among other things, in:

(i) the number of business start-ups;
(ii) adoption of new technology;
(iii) introduction of new and improved goods and services;
(iv) new designs and fashions;

(v) introduction of new work practices and methods of producing and delivering goods and services; and
(vi) Re-structuring and implementation of new organizational structures, sub-contracting and outsourcing arrangements.

46 Government recognizes that while Uganda ranks quite strongly on some drivers of innovation like the quality of its scientific institutions, there are challenges in freeing up the ease of doing business, sophistication of financial markets and competitiveness of credit markets. The level of business sophistication in Uganda is not high enough to take advantage of the opportunities for product differentiation and quality improvement. Trade barriers, excessive number of procedures to start up new businesses and lack of access to more innovative financial products may be constraining innovation. Each of these factors shall be factored into the necessary interventions to implement the Policy.

3.6 Stepwise Approach to Implementation

47 There are a large number of diverse interventions outlined in this Policy and their full implementation will stretch beyond the ten year period. A stepwise approach will therefore be undertaken, breaking the policy into a number of smaller tasks, assigning resources to those tasks and working through each situation and activity. It's through the collective impact of the large number of small improvements that the Policy will have a lasting impact.

3.7 Collaboration and Support

48 Almost all of the identified policy initiatives require participation of other organizations, ranging from Government departments, across ministries, to NGO's and the private sector. For instance Ministry of Finance Planning, and Economic Development is required for financing; the Ministry of Information and Communication Technology for improving the performance on the Knowledge Assessment barometer; Ministry of Agriculture, Animal Industry and Fisheries for improving quantity and quality of agricultural materials; Ministry of Energy and Minerals Development to improve efficiency of minerals and energy supply chains for adding value; Ministry of Health for helping improve people's well-being; Ministry of Water and Environment, and Ministry of Local Government, to ensure industrial sustainability; Ministry of Lands Housing and Urban Development, to provide secure land for industrialization; Ministry of Works and Housing, for infrastructure development and services; and the Ministry of Education and Sports for resolving skills shortages. Development partners on the other hand will contribute to capacity building for change management, staff training as well as providing other resources. It is through combining the energy and mandates of various actors in a harmonized, coordinated, and synergetic way that high performance and greater impact will be achieved. In this regards, an Industrial Consultative Council, chaired by the Prime Minister; will be established as an integral part of a national consultative institutional structure to facilitate the consultations, engagement as well as foster public-private partnership.

4.0 GUIDING PRINCIPLES AND POLICY ACTIONS

4.1 Guiding Principles

49 Implementation of the Industrial Policy will be guided by the following principles;

(i) Continued commitment to a stable and supportive macroeconomic environment
(ii) Strengthening the institutional framework for the implementation of the Industrial Policy
(iii) Development of resource based, industries and product value chain.
(iv) Promotion and institutionalization of a public-private partnership approach
(v) Development and upgrading of key supportive infrastructure
(vi) Deepening and widening of industrial base
(vii) Creating and strengthening national capacity for innovation, and effective application of science and technology in industry
(viii) Creating capacity for financing industrial sector transformation
(ix) Building the necessary human resource development for industrial transformation, and employment.
(x) Promotion of occupational safety in Industrial development
(xi) Promotion of environmentally sustainable industrialization
(xii) Promotion of gender balance and gender sensitive industrial transformation
(xiii) Enhancing the competitiveness of Uganda's industrial sector
(xiv) Strengthening and exploiting policy synergies between the Industrial Policy and other policies in areas such as trade, energy, minerals, education, agriculture, environment, taxation and land.

4.2 Policy Actions

50 In order to realize the Vision and Objectives of the Policy, Government shall in collaboration with the private sector carry out the following strategies and policy actions.

4.2.1 Institutional development;

The Government shall establish, revive, and strengthen leading policy implementing institutions, to ensure effective coordination of all policy implementation initiatives.

(i) Strengthen the Ministry of Tourism, Trade and Industry as well as its affiliated institutions such as the Uganda Industrial Research Institute, Uganda National Bureau of Standards, Uganda Investment Authority, Management Training and Advisory Centre, and Uganda Export Promotion Board which have a role in industrial development

(ii) Revive the Uganda Development Corporation (UDC) as the development arm of Government to support the country's industrialization strategy. This new Industrial Development Agency will promote, and coordinate implementation of the industrial development programmes as well as provide technical and advisory services in building and strengthening capacity of the industrial sector. This Agency will provide a mechanism through which government will intervene in areas where the private sector is unable to do, with an intention of eventually transferring the investment to a private operator either by management contract or outright divestiture.
(iii) Strengthen the Technology Development Centre at UIRI in order to foster development and nurturing of start-up business enterprises
(iv) Establish the National Accreditation Service Centre to facilitate trade access to regional and international markets.
(v) Harmonize and update laws and regulations that are aimed at attracting, mobilizing and promoting investments, whether domestic or foreign.
(vi) Strengthen the institutional linkages between the Ministry of Tourism, Trade and Industry and the district local governments with a view to enhancing their capacity in promoting industrial development at local levels

4.2.2 Public-Private-Partnership enhancement

Implementation of Industrial development shall be interactive, involving the full participation of the Private sector and other stakeholders

(i) Establish an Industrial Consultative Council as an integral part of a national consultative institutional structure to facilitate inter-ministerial consultations, public-private sector consultations, private sector industrial engagement and foster public-private partnership
(ii) Develop Action Agendas for key industrial development sub-sectors
(iii) Review and harmonize all Sector and Sub-sector policies in support of industrial transformation
(iv) Provide a budgetary allocation of at least 1% of total GDP to the industrial sector and strengthening the indigenous private sector to be competitive.

4.2.3 Infrastructure Development

The Government shall in collaboration with the private sector undertake to develop and upgrade infrastructure to facilitate industrial transformation

(i) Prioritize and increase government budgetary expenditure to develop road infrastructure, in order to promote and spread industrialization outside the city centre.
(ii) Promote Public- Private partnership to develop transport, power and telecommunications infrastructure including, roads, railways, ports, airports, power, water and telecommunications

(iii) Promote effective management and conservation of energy to ensure its continuous supply with minimal disruption and competitive rates.
(iv) Establish Export Processing Zones (EPZ), on the basis of thorough feasibility assessment, to stimulate investment in export-oriented industries
(v) Undertake cluster development initiatives and encourage the use of locally available raw materials in value adding industrial processes to enhance market opportunities for supplying sectors.
(vi) Promote the establishment of well services commercially oriented infrastructural facilities such as, industrial, science, and technology parks/estates with common facilities. Under the Zonal Industrialisation phase programme of Uganda, industrial parks/estates will be opened in major towns throughout the country. This will involve both land acquisition, as well as infrastructure development.
(vii) For the micro and small scale industries, Government will construct common facilities centres starting with Luzira Industrial Park, and Luwafu- Makindye. More land will be identified at Regional level, in order to duplicate these Jua Kali common facilities upcountry, thus creating a National portfolio of serviced industrial sites.
(viii) Strengthen the existing engineering facilities and workshops (e.g. UGMA, Army fabrication factory at Magamaga) to increase the scope of their productive capacities, including the production of spare parts and components with a view to promoting the establishment and expansion of Small and Medium scale industries (SMIs)
(ix) Encourage the involvement of the private sector in infrastructure development by offering special investment incentives.

4.2.4 Deepening and widening the industrial base

The deepening and widening of the relatively narrow industrial structure and the strengthening of sub-sector linkages will be key to transformation of industry

(i) Encourage the formation of clusters to enhance value chain coordination, sharing of knowledge and increased access to markets.
(ii) Support the establishment of model Agro-processing Industries, by coordinating activities of the affiliated institutions consistent with the Government "Prosperity for all" programme.
(iii) Support mineral resource development and the strengthening of metallic and non-metallic mineral industries to capture the last stage of value addition.
(iv) Encourage development of downstream industries with increased value added for manufactured exports.
(v) Through the Uganda Industrial Research Institute, provide R&D services to industry and to contribute substantively to the research and development requirements of both national and multi-national enterprises and take a more innovative approach to commercialization of R&D.
(vi) Promote linkages between large and medium-scale industrial firms to encourage them to establish long term subcontracting arrangements with small

enterprises, including reconditioning and rebuilding of spare parts and components.

(vii) Encourage efficient enterprise sizes and industry development through structural adjustment and more use of sub-contracting, out-sourcing and innovative organizational designs.

(viii) Promote foreign direct investments in order to bring about technology transfer, efficiency and management development and enhance marketing skills.

(ix) Promote linkages between industry and academia

4.2.5 Science, Technology and Innovation

Creating national capacity for Science & Technology, incubation, and innovation, to ensure sustainable industrial transformation

(i) Establish and strengthen, as appropriate, technology centers and research institutions in order to assist in the identification of technology needs for industry, advise on the selection of technology and research priorities, analyze information about imported technology and assist in the installation and maintenance of technology.

(ii) Improve protection of intellectual property rights to encourage innovation and increased patent registrations.

(iii) Encourage existing industries, and new investors to utilize the services of local technology institutions and consultants as a means of developing national technological capabilities.

(iv) Facilitate private sector participation to enhance commercialization of research and development from the Academia, through increased public-private-partnerships for research, development and innovation.

(v) Prioritize the provision of support for scientists and researchers who will be undertaking research in industrial production processes.

(vi) In cooperation with the Private sector, establish a research a development fund for product and process technologies, especially for small and medium industries.

(vii) Conduct technology use and productivity training programs for human resource development at the enterprise level as well as undertake study tours to other countries to learn from them and establish south –south co-operation.

(viii) Promote the establishment of technology based incubators in order to improve capacity and competence of indigenous entrepreneurs in undertaking viable industrial production processes, and their ability to produce high quality marketable products

(ix) Strengthen initiatives for industrial and technology development including, strategic alliances, acquiring appropriate technologies, technology up-gradation, technology transfer and building effective linkages within and outside Uganda with a view to ensuring the continuous acquisition and provision of knowledge resources for industrial development and competitiveness.

4.2.6 Financing industrial sector transformation

Using a Public- Private Partnership approach, strengthen and deepen the financial sector with a view to providing adequate and affordable industrial finance

(i) Strengthen the Uganda Development Bank through, inter alia, training and capitalization with a view to providing improved access to competitively priced development and long term credit and equity capital for industry at low interest rates.
(ii) Harmonize policies to ensure that they are supportive of industrial development, and exploit policy synergies and complementarities between the Industrial Policy and other sectoral policies and strategies in areas of trade, finance, taxation and infrastructure development
(iii) Encourage and fasten the ongoing Pension Scheme reviews in order to release lower interest financing for investment in industrial development. This will likely promote the investment of pension funds in meeting medium and long term financing needs of the industrial sector
(iv) In partnership with private sector enhance capacity to develop bankable projects.
(v) Provide incentives to encourage Ugandans in the Diaspora to invest in the National industrial development.

4.2.7 Skills and human resource development

Build through inter alia the education policy, the necessary human resource skills and competencies to support industrial transformation

(i) Reorient the education curriculum to provide light engineering and management skills for industrial establishments,
(ii) Establish and or strengthen entrepreneurship development institutes, with a view to nurturing business culture, mentoring, innovation, and entrepreneurship spirits.
(iii) Establish and strengthen, as appropriate, a network of vocational and technical training institutions using a public-private partnership approach with a view to inter alia create a sufficiently trained labour force for the industrial sector and provide capacity for self employment. This will complement the Ministry of Education and Sports Policy of reforming business, technical and vocational education and training system in Uganda.
(iv) Coordinate with training institutions so that their human capital development programs, characterized by skills- mix training, respond to the demands of the global industry and markets.
(v) Invest more in science and technology including ICT and digital technologies to increase resources for business, industrial development and improved competitiveness.
(vi) Promote the development of engineering facilities and apprenticeship schemes to create a cadre of professional and highly skilled human resources.

(vii) Encourage local industrial enterprises to create joint regional linkages with other enterprises from neighboring countries as well as other countries of the sub-region and the world; in order to support employees to further skills development and strengthen competencies for better management and sustainable industrial operations.
(viii) Encourage local industry enterprises to attach tertiary and vocation institution's students, to their organizations, for industrial training programmes.

4.2.8 Occupational Health and Safety

The emergence of a healthy and safe industrial production environment shall be a key priority of the industrial transformation policy

(i) Ensure a harmonious relationship in the implementation of the Industrial Policy and Labour Laws based on public-private partnership.
(ii) Source and provide technical assistance to industrial establishments in mainstreaming health and safety standards for industry and enterprise operations.
(iii) A comprehensive assessment of the impact of HIV/AIDS and malaria on industrial production and consumption patterns will be conducted with a view to introducing strategies, codes of practice and other measures aimed at mitigating the possible negative impacts on industrial expansion as well as urban and rural livelihoods.
(iv) Conduct awareness programs on HIV/AIDS for the industrial sector and encourage firms/enterprises to mainstream aspects of HIV/AIDS into their development plans

4.2.9 Compliance with international standards and adoption of quality management systems

Industrial firms will be encouraged to adopt firm level policies/strategies in order to improve production processes, product quality and competitiveness at the national level and in the global market

(i) Increase the capacity of the country to participate in international codes and standards setting, and disseminate information on any new codes and standards to the private sector
(ii) Encourage investment in the adoption of new and environmentally friendly technologies, acquisition of skills and work practices that facilitate quality improvement and adoption of recognized international codes and standards.
(iii) Strengthen the existing codes and standards, quality, accreditation and metrology infrastructure so as to improve the quality of products, testing and calibration.
(iv) Build awareness in the business community and sensitize consumers about the attributes of quality products and compliance with international codes and standards with a view to curbing the importation of non-conforming products.

4.2.10 Sustainable industrial development

Industrial transformation shall be pursued in a manner that ensures efficient resource utilization and environmental sustainability

(i) Introduce and strengthen effective industrial pollution control measures such as polluter pays principal and environmental audits for units engaged or wishing to engage in industrial or related activities.
(ii) Fully implement the provisions of the National Environment Policy in order to strengthen the implementation of the industrial pollution control measures across various Government agencies.
(iii) Encourage industrial establishments to use technologies that minimize industrial emissions, the discharge of solid waste, and improve wastewater management.
(iv) Introduce and strengthen cleaner production techniques and work practices in industrial processes by industrial operators including plastic waste management programs
(v) Promote, through the provision of incentives, the development of recycling industries; especially those that use chemical, and agricultural waste; and facilitate the collection and recovery of waste materials.
(vi) Pursue measures aimed at encouraging the production of packaging materials that are environmentally friendly, including the phase-out of non-recyclable plastic and polythene packaging bags by encouraging provision of alternatives.
(vii) Minimize, and ultimately eliminate, importation of obsolete or near-obsolete industrial equipment or products with a view to eliminating the negative effects of such on Uganda's environment
(viii) Upgrading existing production technologies (machinery) to respond to the quality, codes and standards of actual markets and environment demand.

4.2.11 Gender in industrial development

Gender balanced and gender sensitive industrial transformation shall be prioritized

(i) Review, assess and harmonize existing gender policies and practices in government and industrial establishments with a view to strengthening capacity for gender mainstreaming and removing inconsistencies in the industry sector.
(ii) Train stakeholders in gender analysis, gender planning, and realistic application of gender strategies and measures in industrial operations.
(iii) Establish gender focal points in industry and industrial support institutions to ensure that gender is addressed in employment policies and practices, and technology and skills development.
(iv) Promote and develop vocational and technical education for the disadvantaged sections of society such as women and people with disabilities, including through affirmative action to increase the percentage of such groups in technical and vocational institutions as well as other industrial related disciplines.

5.0 IMPLEMENTATION AND MONITORING OF THE NATIONAL INDUSTRIAL POLICY

51 The Ministry of Tourism, Trade and Industry shall lead the implementation of the National Industrial Policy while collaborating with other Ministries that have a direct role in its implementation. These include the Ministries of Finance, Planning and Economic Development; Agriculture, Animal Industry and Fisheries; Gender, Labour and Social Development; Education and Sports; Energy and Mineral Development; Water and Environment; Lands, Housing and Urban Development, Information and Communication Technology; Works and Transport; Health; Local Government; Defense; and Foreign Affairs; as well as other Government Agencies, and the Private Sector.

52 The Ministry shall work closely with the Ministry of Finance, Planning and Economic Development, Ministry of Local government and the National Planning Authority to ensure the integration of industry and industrial related issues in the National Development Frameworks and development plans. The Ministry will also regularly interact with the private sector, the academia and relevant industrial organizations, and NGO's.

53 A National Industrial Sector Strategic Plan (NISSP) will be developed to guide implementation of this Policy. This NISSP will focus on four industrial categories namely; raw materials produced by the peasant sector, plantations type industries, engineering based industries, as well as knowledge based industries. The Ministry will also regularly interact with the private sector, the academia and relevant industrial organizations, and NGO's.

54 Monitoring the implementation and impact of policy measures shall be carried out on a regular basis using appropriate sets of indicators and will involve full participation of the private sector and other key partners in industrial development. For those activities outside the direct influence of the Ministry of Tourism, Trade and Industry, monitoring shall be multi-disciplinary. The Ministry of Tourism, Trade and Industry Policy Analysis Unit shall coordinate the over all monitoring and evaluation strategy.

5.1 Core Functions of the Ministry of Tourism, Trade and Industry

55 With regard to the implementation of the National Industrial Policy, the core functions of the Ministry of Tourism, Trade and Industry are;

i. Policy formulation, and development of the National Industrial Sector Strategic Plan
ii. Provision of policy guidance and supervision to Affiliated Institutions and decentralized levels of service delivery, particularly the Jua Kali Industrial Parks
iii. Mobilization of resources for implementation of the Policy
iv. Coordination and spearheading of implementation of all the aspects of the Policy
v. Monitoring and evaluation of the overall performance of the Industrial sector

vi. Ensuring that industrial policy remains an integral component of national development plans.

6.0 CONCLUSION

56 The National Industrial Policy has taken into account the present state of industrial development in the country; and existing laws, and other current policies. More importantly, Government will continue to concentrate on creating an enabling policy environment to the private sector to lead growth. Policy linkages and synergies are explicitly emphasized in this Policy, and their exploitation and enhancement shall be key to the policy implementation process.

57 The vision is to promote sustainable industrial development, economic growth and transformation through harmonized coordination within government and solid partnership with the private sector and focus, inter-alia on the following:

- Develop resource- based, Agro-Industries for value added products; and provision of transport, power and other infrastructural facilities which will provide a more favorable atmosphere for industrial progress and agricultural production
- Continue promoting Science, Technology, and Innovation, Vocational, education and training, and information services; to produce a workforce with skills and competences for jobs in changing structures of the economy.
- Promote sustainable production and consumption by influencing suppliers to produce and customers to consume sustain ably.
- Create support systems for sustainable micro and small industries development.
- Protect the consumers against hazards to health and safety caused by contaminated, defective or dangerous products
- Promote the protection of the environment against potentially polluting industries
- Promote “buy local and build Uganda” strategy.

57 The wide consultative process that has been followed in developing this Policy has helped to identify, by consensus, the priority areas for industrial development in particular and how it relates to national development. Strategic actions to help achieve these priorities have also been arrived at through a consultative mechanism. In fact, the Policy institutionalizes consultation so as to ensure that the spirit with which this Policy was developed is the same spirit with which it will be implemented. An effective and efficient Public-Private Partnership arrangement is envisaged for implementation of the Policy. Uganda is already undergoing a major economic transformation and industrialization is identified as the major driving force and cornerstone in accelerating this process.