

Industrial Policy for Economic Transformation in Uganda

June 2020



CENTRE FOR
DEVELOPMENT
ALTERNATIVES



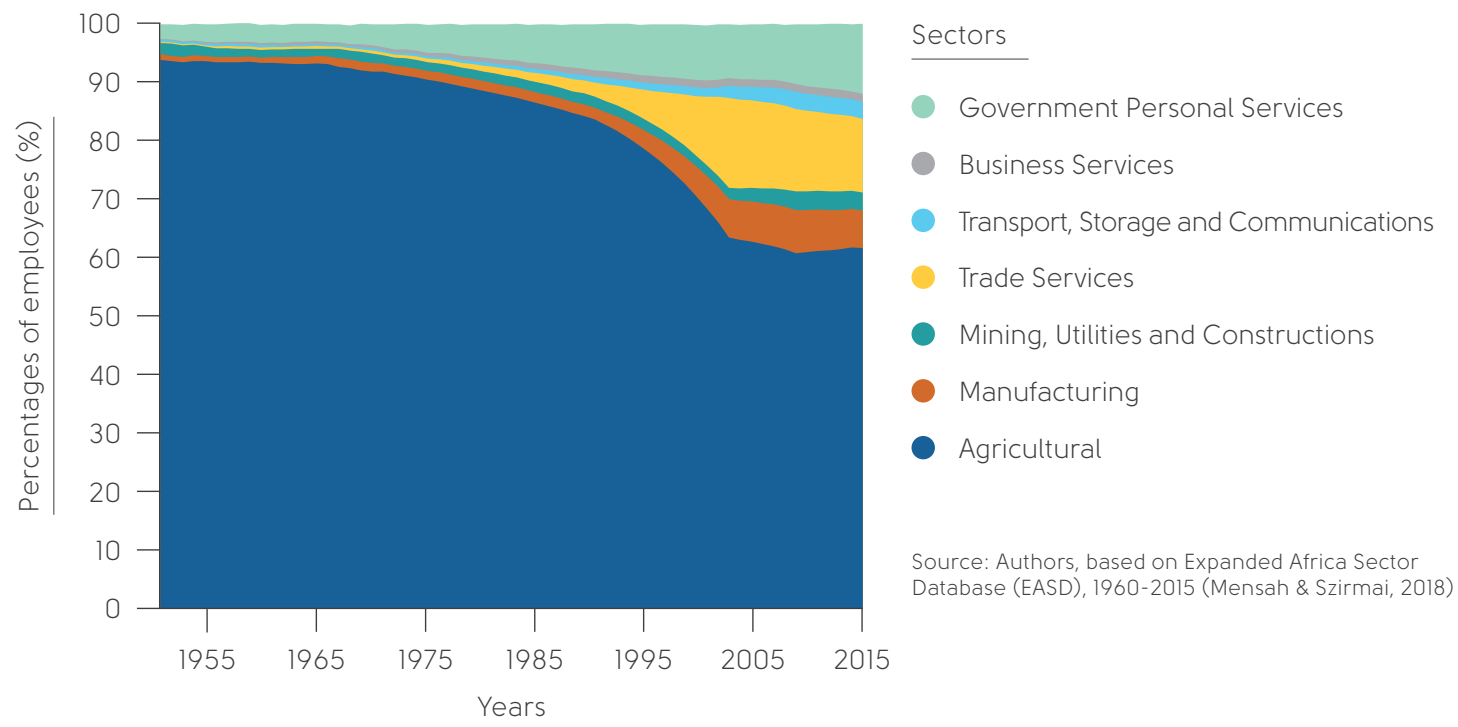
Konrad
Adenauer
Stiftung

What is economic transformation?

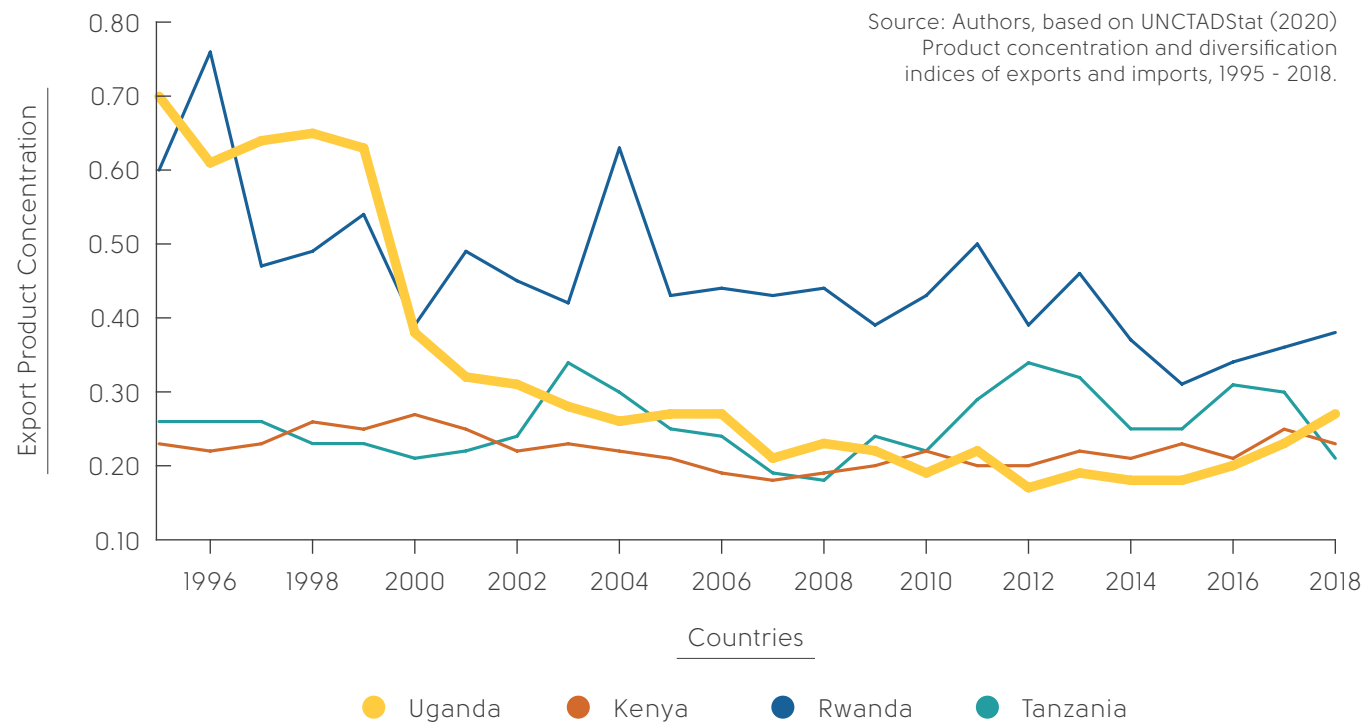
The **shift** of **labour** and **other economic resources** from **low-to high-productivity activities**.

- **Across-sector** (from less to more productive sectors)
- **Within-sector** (from less to more productive activities)
- Driven by development of new **productive capabilities**
- The more **labour is absorbed**, the more transformation has occurred
- **Manufacturing** still biggest driver of transformation, but '**industries without smokestacks**' increasingly important

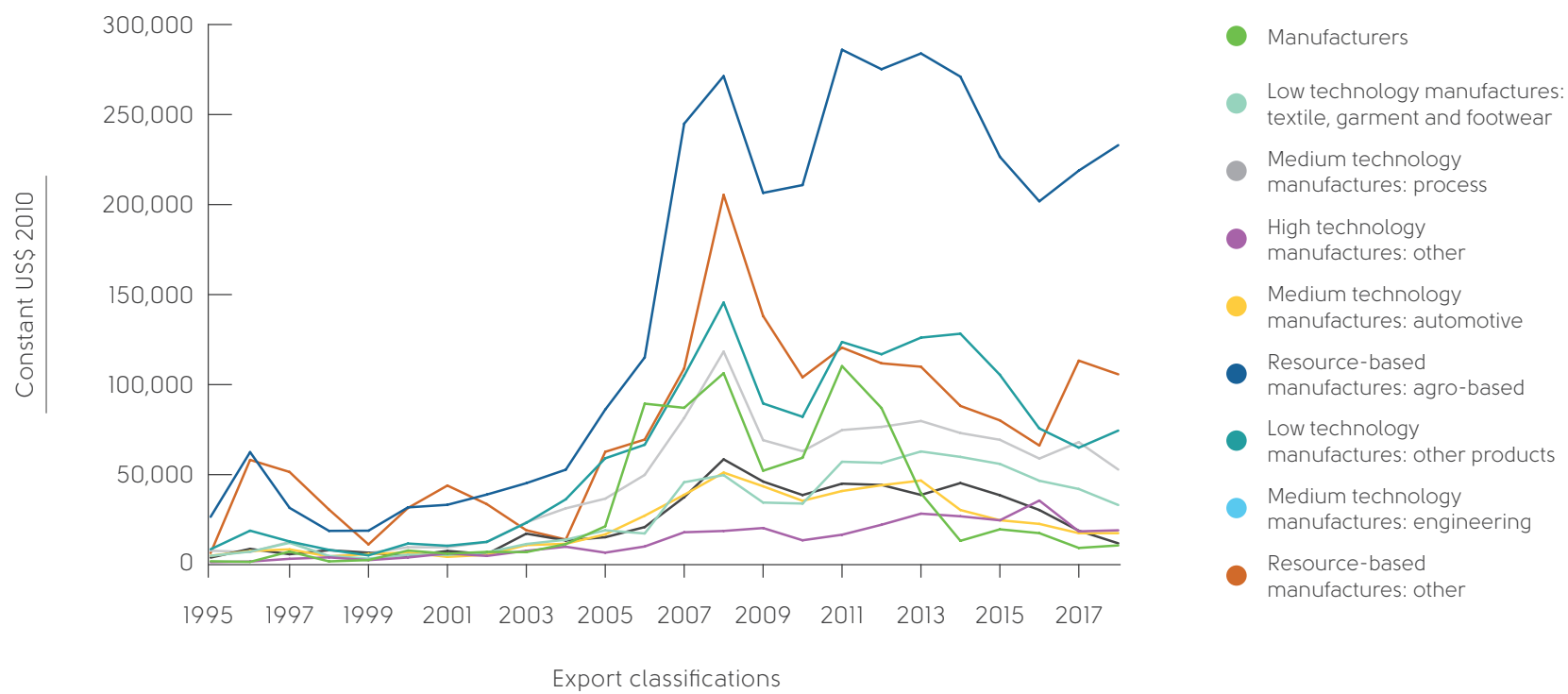
Uganda: Stalled economic transformation



Uganda: Stalled economic transformation



Uganda: Stalled economic transformation



Industrial Policy

A range of **government interventions** aimed at **altering productive structures** toward **higher-productivity sectors** and **activities** by changing the **incentives, constraints,** and **resources** available to **economic actors**.

- Leverages **market forces** but stands in **contrast** with laissez-faire **neoliberalism**
- **Theoretical** rationale: markets on their own will not bring about transformation
- **Empirical** rationale:
 - Many cases of industrial policy success & failure around the world
 - Virtually no examples of sustained economic transformation without industrial policy



Rapid history of industrial policy in Uganda

Historical experience

- Early – mid 1960s: short-lived industrial policy efforts
- Late 1960s & 70s: industrial policy sidelined by state expropriation
- Early 1980s: failed attempts at liberalisation
- 1990s – 2010s: laissez-faire neoliberalism

The Comeback

- 2008 National Industrial Policy (MoTIC) (but little implementation)
- Revival of Uganda Development Bank & Uganda Development Corporation (but capitalisation low)
- 2019/20 Budget Speech: “**Industrialisation** for Job Creation and Shared Prosperity”
- National Development Plan III (2020/21 – 2024/25): “Sustainable **Industrialization** for inclusive growth, employment and sustainable wealth creation”.

Key Objectives:

1. Enhance **value addition** in key growth opportunities;
2. Strengthen the **private sector to create jobs**;
3. Consolidate and increase the stock and quality of **productive infrastructure**;
4. Enhance the **productivity** and social wellbeing of the population;
5. **Strengthen the role of the state in guiding and facilitating development.**

Our questions

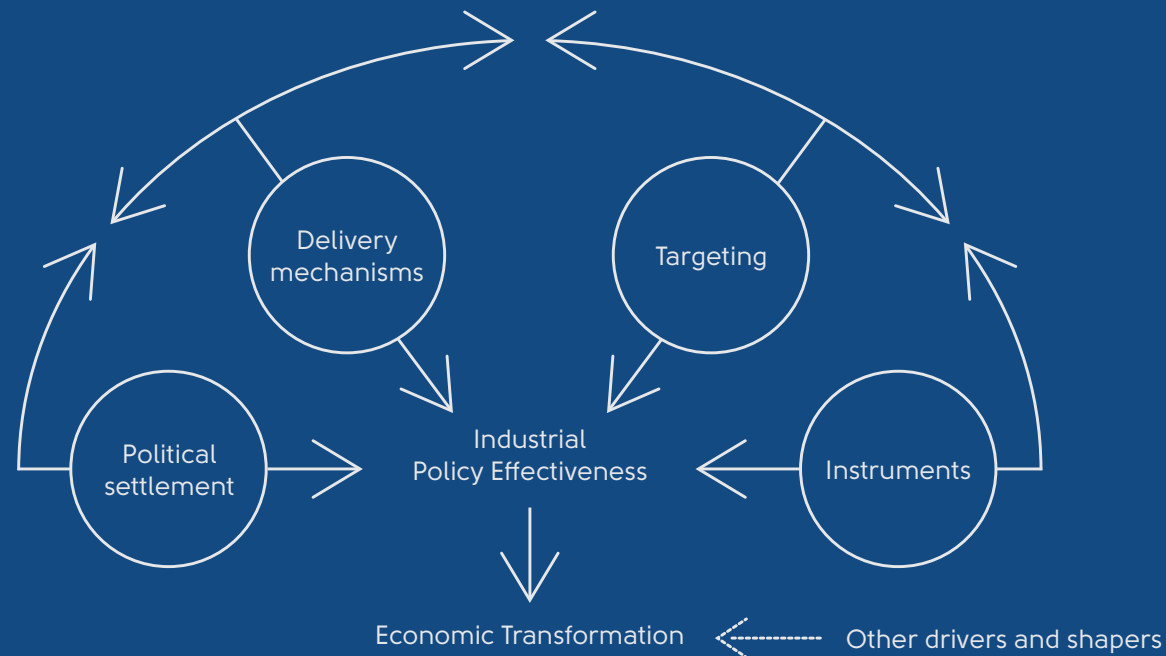
The question is not whether industrial policy is needed in Uganda

- Sustained (& especially fast) economic transformation almost always requires industrial policy
- GoU is already moving towards industrial policy

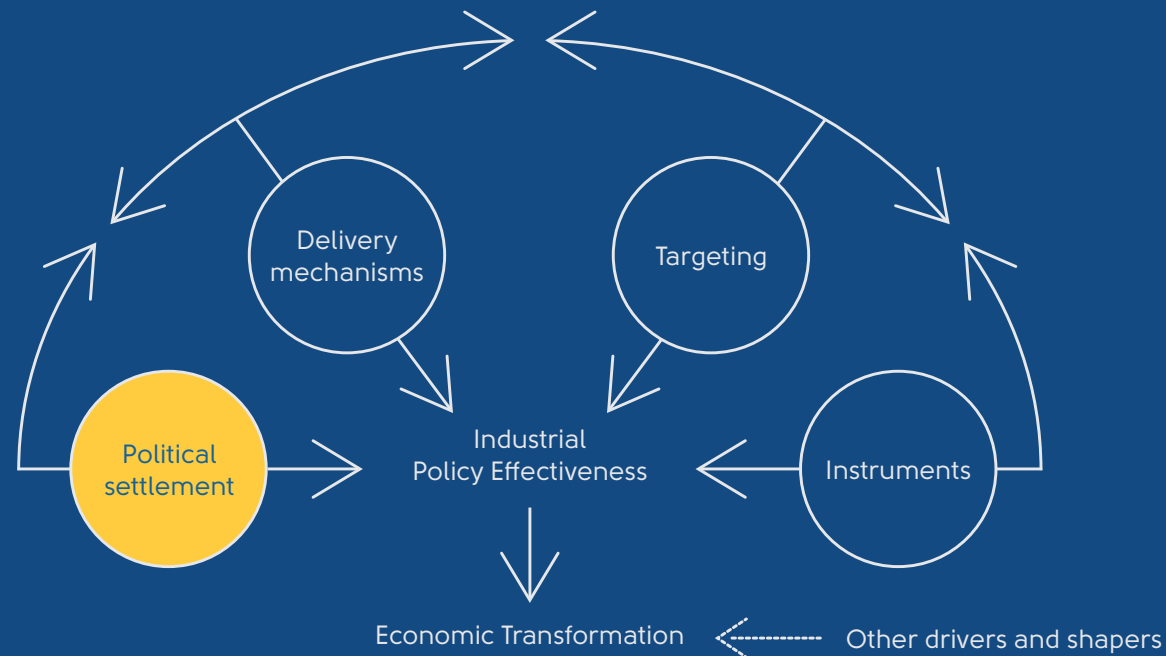
How to increase Uganda's chances of joining the success stories & not the failed cases?

- What are the factors of industrial policy success or failure?
- What is the status of those factors in Uganda?
- How can they be strengthened?
- What lessons can be learned from around the world? From Uganda's own past & present?

Factors of industrial policy success or failure



Factors of industrial policy success or failure



Political settlement



Introduction

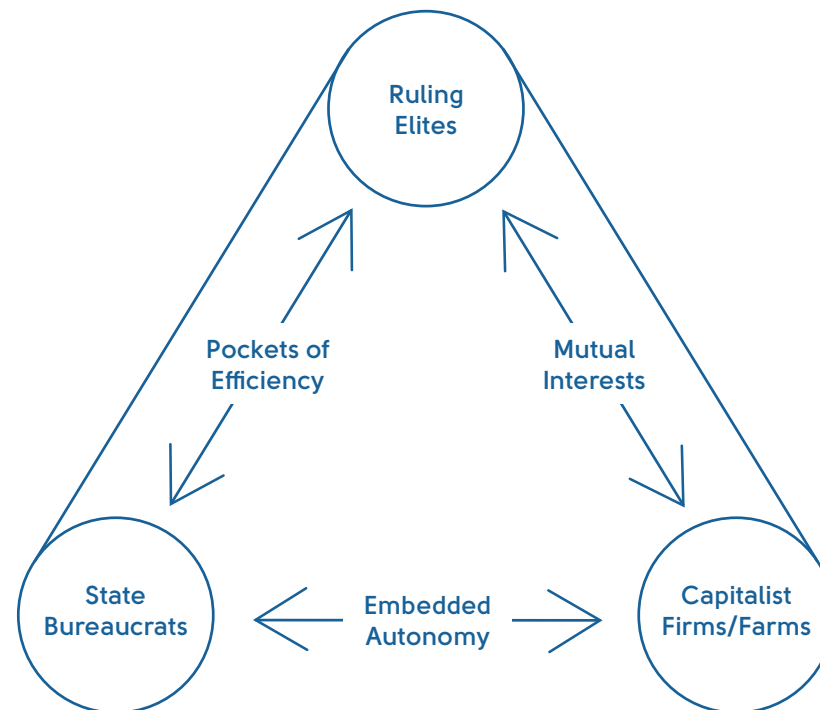


Status



Pathways

Moving beyond
“lack of political will”



Source: Whitfield et al (2015)
The Politics of African Industrial Policy

Political settlement

The literature on Uganda's general political economy is largely pessimistic... but the kind of political conditions needed for industrial policy success have existed in other parts of Uganda's public sector.



Introduction



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Pathways

Mutual Interests

- Positive examples: dairy; UMA lobbying efforts
- Traders vs industrialists
- Political elites: industrialization ambitions vs patronage pressures
- Business elites investing in "jobless" sectors & protecting short-term rents
- Scarce govt resources vs short-term rent collection in business elite

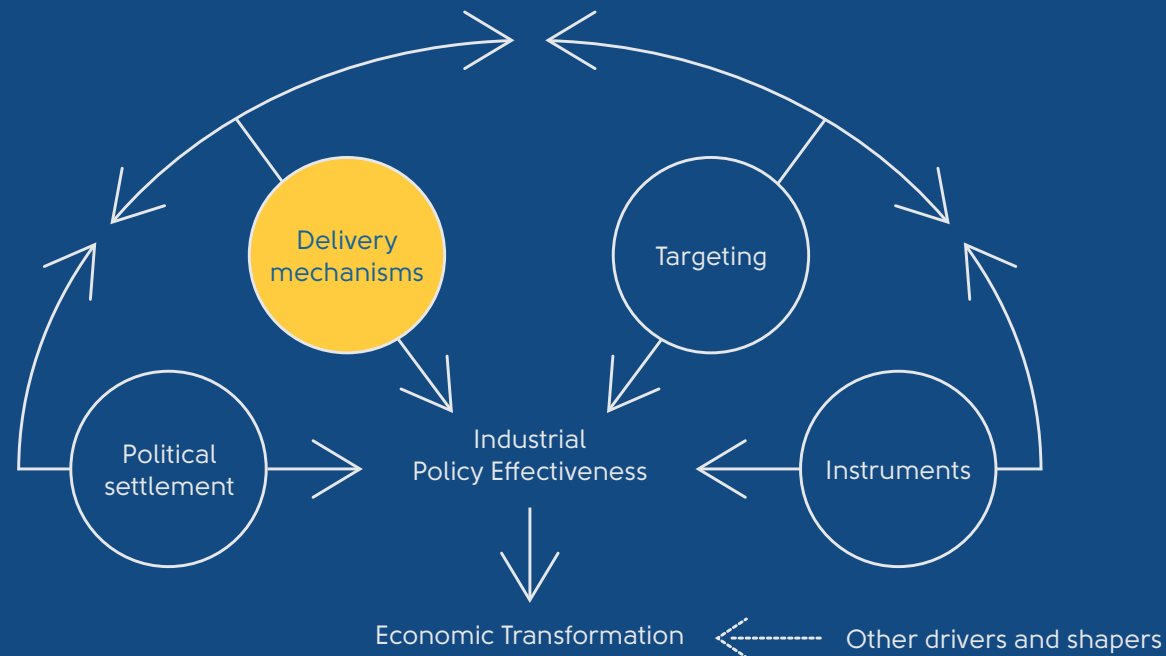
Pockets of Efficiency

- Largely absent in industrial policy domain: lack of resources, autonomy & political insulation; civil service strictures
- Proof that they are possible (but fragile):
 - Ministry of Finance, Planning & Economic Development
 - Bank of Uganda
 - Uganda Revenue Authority
 - National Water & Sanitation Corporation
 - Petroleum Directorate
 - Dairy Development Authority

Embedded Autonomy

- Some embeddedness, but limited by resource constraints & weak coordination
- Some (but still rare) evidence of GoU disciplining private sector (a sign of autonomy) e.g. UIA industrial park land; tax exemptions removed; UDB funding withdrawn
- Limited autonomy: political patronage drives many IP decisions (e.g. social impact over competitiveness; UIRI lack of graduates)

Factors of industrial policy success or failure



Delivery mechanisms



Introduction



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Pathways

Moving beyond “weak implementation”

Key Factors

- Coordination
- Evolving dynamically
- Managing winners and losers

High-level coordination body

- Ministry / Board / Commission / Council
- Mandated from / reports to highest political levels
- Staffed by highly competent people (and mostly not economists)
- Empowered to act on their own judgment
- Reps from private sector, academia, ex civil servants, labour
- **Japan** Ministry of International Trade and Industry & Industrial Structure Council
- **Korea** Economic Planning Board
- **Taiwan** Industrial Development Bureau
- **Thailand** National Economic and Social Development Board
- **Ethiopian** Investment Commission
- **Rwanda** Development Board

Sector development agencies & specialised institutes

- **Japan** Electronic Computer Corporation
- **Thailand** Automotive Institute
- **Malaysia** Rubber Board & Palm Oil Board
- **Ethiopia** Leather Industry Development Institute & Horticulture Development Agency
- Other examples from **Brazil, Mexico, Chile, Colombia, Peru, Costa Rica**

Delivery mechanisms



Introduction



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Pathways

- **No** single industrial policy **apex organisation**
- **MoTIC** has formal mandate but lacks resources & political backing
- **MoFPED** has financial resources & political backing but lacks formal mandate & technical expertise (embeddedness)
- **Presidential directives & ad-hoc decisions** weaken state's coordination capability & formal implementation channels
- **Sector development agencies** have been a mixed experience, pockets of efficiency rare:
 - dairy = time-bound success
 - fisheries = short-lived success
 - petroleum = strong agency but few tangible results



Delivery mechanisms



Introduction



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Pathways

A “super-ministry” of Industry, Trade, and Investment (MoITI)

Advantages

- All key functions housed under one entity with strong mandate to drive industrialisation agenda
- Single point of engagement for private sector
- Overcome mandate overlap with MoFPED & OP
- Opportunity to build lasting institution & mainstream industrial policy into formal institutional framework

Disadvantages

- Indirect reporting line to President, via Cabinet as well as MoFPED, which allocates budget resources
- Subject to civil service rigidities and politics, making performance-based personnel management and capacity building difficult
- Would require politically costly process of removing entire functions from other ministries

An Industrial Policy Delivery Unit

- Direct line of command from Head of State
- High concentration of political, financial, & human resources on small set of priority initiatives
- Outside of civil service rigidities & politics

- Must work with/through other MDAs to deliver effectively
- Requires significant shake-up of existing formal institutional framework

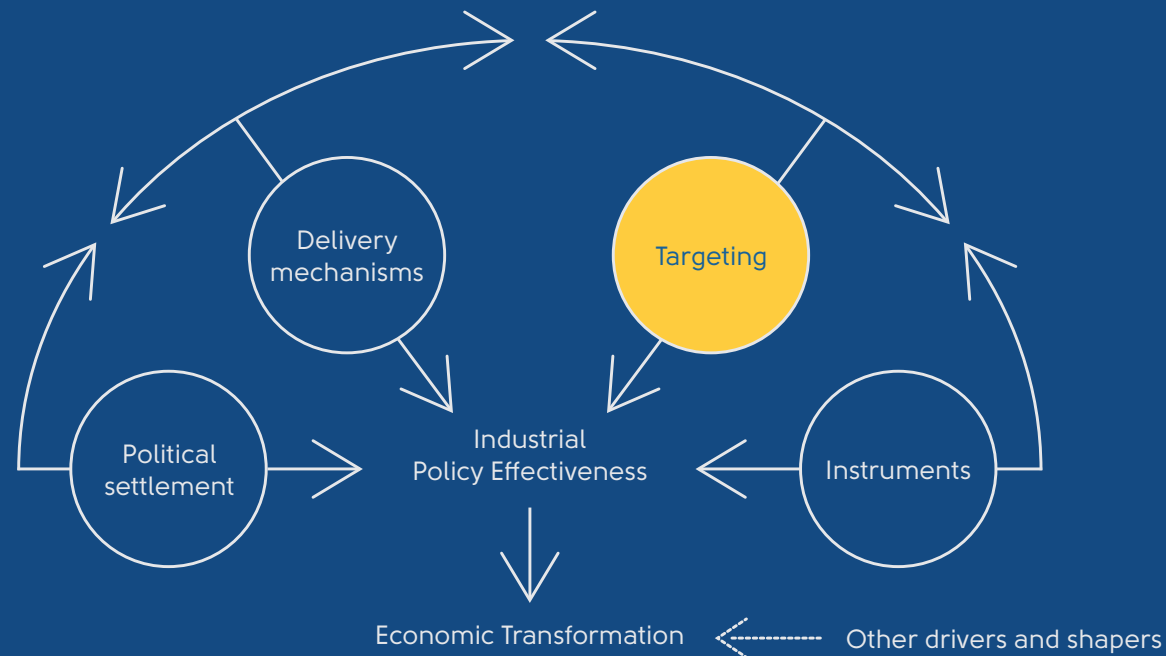
Sector Development Authorities

- Enables greater technical specialisation & closer “embeddedness” of bureaucrats in each target sector
- Can be targeted at sectors where existence of mutual interests is more likely
- Can have direct line to President
- Can be outside of civil service rigidities and politics

- Risks diluting the political, financial and technical resources that would otherwise be concentrated in a single delivery unit
- Does not provide cross-sectoral coordination



Factors of industrial policy success or failure



Targeting



Introduction



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Pathways

How to choose?

- **Imitation** is the most discernible pattern **in practice**
- E.g. England <- Germany <- Japan <- Korea <- Ethiopia
- Can we be more methodical?

Economic conditions

- Economic conditions
 - Lead the market vs follow the market
 - Product space: parsimonious growth vs strategic bets
 - Import substitution vs global value chains
 - Growth Identification & Facilitation Framework
 - Backward & forward linkages
 - Windows of opportunity / technology cycles

Political economy conditions

- Mutual interests?
- Can winners & losers be managed?
- Pockets of efficiency & embedded autonomy feasible?

Integrated approach?

Targeting



Introduction



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Pathways

— IP has been criticised for being **too broad**

Product Descriptions	2019 MoFPED Budget Speech FY 2019/2020	NDP III 2020/21-24/25	NIP 2018	National Export Development Strategy 2015/16 - 19/20
Cereals & cereal products				
Oilseeds & edible oils				
Beans				
Coffee & tea				
Cocoa				
Sugars and sugar confectionery				
Fruits & vegetables				
Meat				
Fish				
Dairy products				
Hides & skins & leathers products				
Cut flowers				
Tobacco, raw & processed				
Starch				
Paper and paperboard				

— GoU priorities are **inconsistent**

Product Descriptions	2019 MoFPED Budget Speech FY 2019/2020	NDP III 2020/21-24/25	NIP 2018	National Export Development Strategy 2015/16 - 19/20
Furniture				
Refined gold				
Copper				
Cement				
Cotton, textiles & apparels				
Beddings & mattresses				
Ceramic products (esp. tiles)				
Fertilisers				
Iron and steel				
Oil, gas, petrochemicals				
Chemicals				
Plumbing, fixtures and fittings				
Pharmaceutical products				
Electronics assembly				
Automobile assembly				
Tourism				



Targeting



Introduction



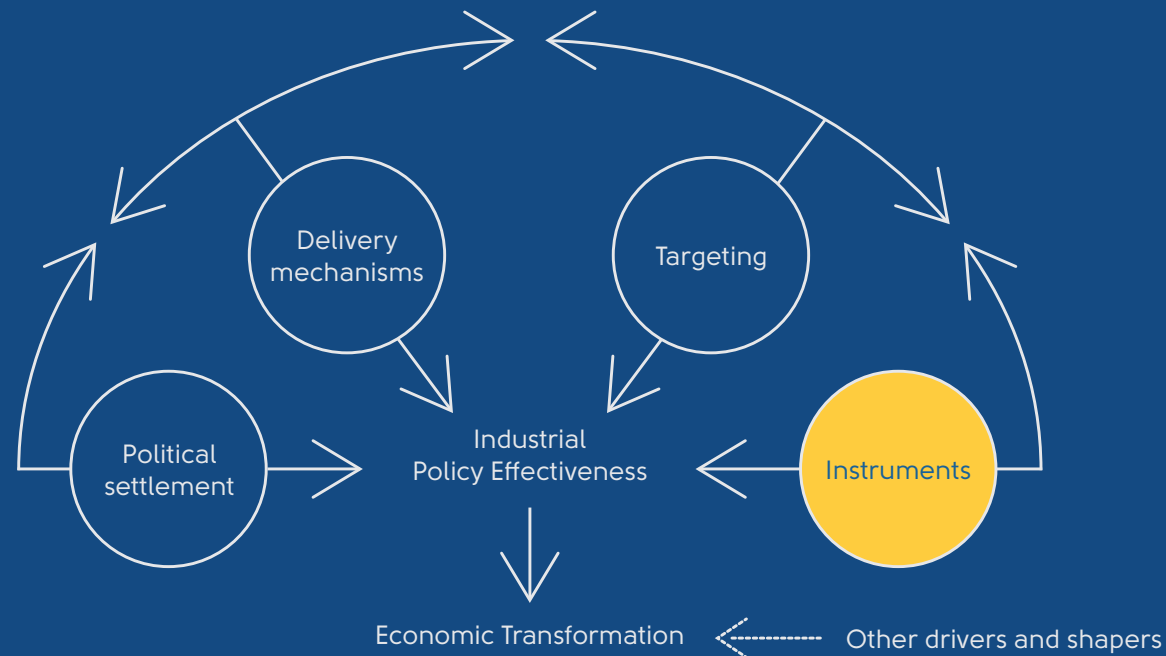
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Pathways

- **Align government strategies** on a **narrower** set of priority sectors & activities
- Do not overlook **opportunities beyond import substitution & value addition**
- **Targeting principles:**
 - Applying a **combination of selection tools** to identify a set of **priority industrial sectors and activities** that is **coherent and consistent** across all government policies and strategies
 - Developing a **long-term vision**, both economy-wide and within priority sectors, and a **phased and iterative approach** that builds on previous successes and learns from failures
 - Taking into account **contextual factors** and **longer-term risks and opportunities**
 - Using both **quantitative and qualitative measures** to score potential target activities according to both **strategic value** and **feasibility**
 - Selecting a **mix of lower-risk and higher-risk** priority industrial sectors and activities.

Factors of industrial policy success or failure



Instruments

- **Support + Discipline** combination is key
- Instruments are most effective when delivered as a coherent **policy package**

					
		Introduction	Status	Pathways	
Area of Intervention	Type of Instrument				
		Regulation	Incentives / Disincentives	Information	Direct Provision of Goods & Services
	Product Market				
	Land Market				
	Labour Market				
	Capital Market				
	Technology				

Source: Weiss (2015) "Taxonomy of Industrial Policy" & GIZ & UNIDO (2017) Enhancing the Quality of Industrial Policies

Instruments



- **Electricity** infrastructure development & cross-subsidisation
- **Transport** infrastructure development
- **Tax** holidays, exemptions, rebates
- **Export levies & bans** on raw materials
- Free or subsidised **land** inside & outside industrial parks
- Protective **import tariffs**
- **Public investment & subsidised credit** into pioneer firms
- Promoting **local content**

Table xx: Mapping of current (and recent) industrial policy instruments employed in Uganda

Area of Intervention	Type of Instrument			
	Regulation	Incentives / Disincentives	Information	Direct Provision of Goods & Services
Product Market	<ul style="list-style-type: none"> Import tariffs (e.g. dairy, fabrics, steel) Export levies on raw material (e.g. cotton, metal, saw logs, unprocessed timber) Local content requirements (oil & gas) Foreign market access through trade deals 	<ul style="list-style-type: none"> Income tax exemptions for manufacturing investment (e.g. agro-processing, export manufacturers) Export levies on raw materials (e.g. raw hides & skins) Import duty exemptions for export manufacturers (e.g. textiles, cotton, leather, any firm in a free zone) VAE exemptions for industrial services and materials 	<ul style="list-style-type: none"> Export market information / Trade fairs Investment promotion Investment facilitation (one-stop service centre) 	<ul style="list-style-type: none"> Dedicated infrastructure development (e.g. power substations for steel) Local content requirements in public procurement Trade facilitation support State-owned enterprises Provision of value chain infrastructure / functions (e.g. fisheries, dairy) Business development services (e.g. SEI, Enterprise Uganda) Government promoted tourism marketing in target countries
Land Market		<ul style="list-style-type: none"> Provision of subsidised land to manufacturers (e.g. Kampala - mixed, Tororo - mineral based, Mbarara - agro-processing) 		<ul style="list-style-type: none"> Provision of free land to specific investors Free facilities for industrial MSMEs (e.g. LUG)
Labour Market	<ul style="list-style-type: none"> Staff training requirements on companies (oil & gas) 	<ul style="list-style-type: none"> Training grants (e.g. BRD Capacity Building Programme, Skills Uganda) Training expenditure tax benefits 		<ul style="list-style-type: none"> Provision of training through public / TFC institutions International exchange programmes / scholarships (e.g. oil & gas)
Capital Market				<ul style="list-style-type: none"> Public concessional loans (SIDO) Concessional lines of credit (Agricultural Credit Facility / Microfinance Support Centre) Public venture capital (SIDO)
Technology	<ul style="list-style-type: none"> R&D grants (Multi-Innovation Fund) Import duty exemptions on parts & machinery 			<ul style="list-style-type: none"> Public research institutes (e.g. IMRC) Support to universities for industrial research (Presidential Initiative on Science & Technology) Technology extension programmes

Industrial Policy for Economic Transformation in Uganda

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Instruments



Introduction



Status



Pathways

- **Focus support and protection** exclusively on priority industrial sectors and activities
- Provide **deeper support** to priority industrial sectors and activities
- Couple industrial policy **support with requirements, performance pressure, and culling losers**
- Take a more **regional approach** to industrial development



Instruments



Introduction



Status



Pathways

Focus support and protection exclusively on priority sectors and activities

- Reserve industrial policy **support** (e.g. tax incentives, land allocations, power subsidies, public procurement contracts) **exclusively for top priority** (i) new **sectors** and (ii) **activities** within existing sectors
- Reform the **trade regime to favour domestic industrialists and value addition** by shifting protection from import trade and primary production towards higher-value-added activities.

Instruments



Introduction



Status



Pathways

Provide deeper support to priority industrial sectors and activities

- **Foster strong technical leadership** in industrial ventures through joint ventures, access to international expertise, international secondments, collaborative public-private TVET framework, incentives for on-the-job upskilling
- **Dedicated infrastructure & services in industrial parks & free zones**, incl. warehouse shells, utilities, waste mgmt., customs, emergency response, etc.
- **More state control over capital markets** to increase flow of low-cost finance into priority industrial sectors & activities (?)
- **Elevate investment attraction & facilitation** to higher priority in GoU, UIA to build international presence, actively target investors for priority sectors, target those investors who demonstrate willingness & capability to engage in value addition
- **Ensure local content in public procurement & leverage rapid urbanisation to spur** domestic production of construction materials

Instruments



Introduction



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Pathways

Couple industrial policy support with requirements, performance pressure, and culling losers

- Expose multiple pioneer firms in target sectors to **credible domestic competition** / demonstrate **ability & willingness to “cull losers”** to incentivise firms to build production capabilities & competitiveness
- **FDI attraction & facilitation** with **smart conditionality** to ensure FDI serves industrial development objectives, incl. local content, investment in local value-addition
- **Incentives / requirements on foreign investors** to ensure FDI targets **binding constraints in priority sectors** – e.g. shortage of capital, skills, technology, or international market linkages
- **Maximise FDI spill-overs** through flow of business deals, knowledge, technology, skills & capital between foreign & domestic firms, incl. through joint ventures

Instruments



Introduction



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Pathways

Take a more regional approach to industrial development

- **Smarter export requirements** to foster regional trade (e.g. gradually increasing export targets / tax exemption for % of export revenues / export subsidies & loans)
- **Bilateral & regional deal brokerage** to unlock large industries (e.g. ironmaking); **stronger regional collaboration** on industrial policy, peace, stability, mutual trust
- Upgrade **production standards** in priority agro-based industries to ensure regional & global market access & incentivise firms to upgrade technologies, skills, processes
- **Build regional value chains** that leverage UG's strategic geographic position & captive inland markets for products, components, services
- **Regional transport & trade infrastructure:** invest & lobby for stronger EAC collaboration, also in resolution of other regional trade barriers
- Lobby for **smarter regional collaboration on import tariff policy**, leveraging CET to protect East African infant industries & catalyse regional value chains

Next steps for industrial policy in Uganda

GoU

- Implementation of National Development Plan III (2020/21 – 2024/25)
- Finalisation of National Industrial Policy (in draft since 2018)
- Low Carbon Industrialisation Strategy 2020 – 2040 (to be developed)
- Industrial Parks & Free Zones masterplans (to be developed)

Development partners:

- Msingi collaboration with GoU on sector transformation
- UNDP & UNIDO: support to GoU on industrialization e.g. National Industrial Policy
- EU: Greening Uganda Urbanisation and Industrialisation (2020 – 23)
- World Bank: Multi Donor Trust Fund (under design)
- UK Aid: Transforming Agriculture for Job Creation (under design)
- China, Korea, UK: technical & financial support on industrial parks
- GIZ: Support to East African Market Driven and People Centred Integration (2019 – 22)
- Multiple other donors: exploring economic transformation programming in Uganda

Q&A

