



UGANDA  
DEVELOPMENT  
CORPORATION  
*Driving Industrial Growth*

# Understanding Musevenomics with an Industrial Lens and Tracking Growth in Uganda's Industrial and Economic Development

## UDC Working Paper No.1

Patrick B. Birungi, Mildred Barungi,  
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2022

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## ACKNOWLEDGMENT

**T**his paper was born out of one of the meetings between General Caleb Akandwanaho and Uganda Development Corporation (UDC), during which he wondered whether the Corporation had attempted to apply an industrial lens to H.E. the President's ideology of socio-economic transformation as articulated in his various speeches. Therefore, the authors of this paper appreciate this positive undertone of challenging UDC.



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## Abstract

*The book titled "Musevenomics" is not a mere compilation of speeches by H.E. the President of the Republic of Uganda. Rather, it is an ideology that brings out key strategies that will lead Uganda to the desired integrated, independent and self-sustaining modern economy. The strategies include promoting commercial agriculture, enhancing value addition, and creating jobs for the youth. There are on-going government efforts to implement the strategies prescribed in the Musevenomics ideology. Important to note, the Uganda Development Corporation is one of the key public institutions that is implementing the strategies laid out in the Musevenomics ideology. Since its re-establishment by the UDC Act, 2016, the Corporation has been promoting and facilitating the value addition aspect through the establishment and revival of agro-industries to increase uptake of locally available agricultural raw materials hence encouraging commercial farming and directly contributing to the reduction of the proportion of the population engaged in subsistence agriculture only. The UDC's industrial investments have sustained and created employment opportunities for the people of Uganda, including the youth, thus advancing structural transformation.*



# 1. Background

Since the mid 1980's, Uganda's economy has moved from recovery to growth. The GDP growth rate which had fallen to less than one percent in 1985/86 was restored in 1986/87 to 3.9% and has since then continued to grow at an average rate of 6.2%. Similarly, poverty incidence has decreased to 20.3% in 2019/20 from 33.8% in 1998/99. In line with the principle of structural transformation, the share of agriculture sector in GDP declined from over 45.9% in 1981/82 to about 27.1% in 2020/21, and the employment share of agriculture has declined by 11 percentage points while that of the services sector has increased by 2.5 percentage points. In order to consolidate and accelerate this growth process, and achieve the desired transformation into a Modern and Prosperous Country, Government must pursue full industrialisation.

Industrial development has played an important role in the economic growth of the Asian Tigers (Singapore, Hong Kong, Taiwan, and South Korea) which at one time shared similar characteristics as Uganda. The Asian Tigers were third world countries that experienced wars before gaining independence from their colonial masters, and their economies had greatly collapsed. However, driven by exports and rapid industrialization, the countries steadily grew at a sustained high rate of economic growth, joining the ranks of the richest countries in the world (Shirley, 2014). Important to note is that the Asian Tigers followed a similar approach in their progression of rebuilding after wars; their governments pursued full industrialisation in a phased manner as summarized below;

- (i) During the first phase, the Asian Tigers promoted import substitution industrialisation using local resources. There was a deliberate move to support production of raw materials, and the costs of critical factors of production were kept low.
- (ii) In the second phase, the Asian Tigers developed light industries and promoted export-oriented growth. Additionally, they developed and implemented policies and strategies to guide industrial development; the foreign currency earned through the explosion of exports was re-invested in the advanced technologies and machinery that were needed to progress to high-value-added industries; tariffs and subsidies were used to shield growing advanced industries from the internal market.
- (iii) During the third phase, the Asian Tigers developed the heavy and chemical industries. This was supported by government legislation and policy instruments. The economies also improved the quality of their labour force through education. Additionally, public investment in infrastructure required by heavy industries was prioritised.
- (iv) The fourth and final phase was the development of high-tech industry. The Asian Tigers moved into high tech industry and promoted high-technology exports, whose contribution to total exports surpassed that of heavy and chemical industrial exports.

Additionally, the steadfast commitment by political leaders to pursue full industrialisation saw the Asian Tigers shift to high income countries from economic backwardness. Political leadership can influence the pace of industrial development, partly through allocation of public resources and creation of an enabling environment for industrialisation.

In the case of Uganda, H.E. the President and the NRM Government rightly acknowledge that industrialisation is the firm foundation on which to build a sustainable modern economy, and this has been repeatedly emphasized in his various speeches. For example, the President underscores the need to step up value addition, noting that “by exporting unprocessed raw materials, we only get 10% of the total value of our resources as the rest goes to the importing countries who process them into high-value products”. He also calls it exportation of jobs and calls upon African countries not only to be a source of raw materials but add value at source. Whereas the President’s speeches clearly spell out a strategic direction that can shape the country’s industrial and socio-economic transformation agenda, they often do not attract the required attention.

Upon this background, this paper was prepared with the aim to;

- 1) Decipher H.E. the President’s ideology of socio-economic transformation as articulated in his various speeches.
- 2) Track and explain the state of Uganda’s economy from an industrial perspective.
- 3) Critique select major policies and their implication on Uganda’s industrial development

The paper adopts the document review approach and uses available secondary statistics for indicators of socio-economic and structural transformation obtained from official sources.

The rest of the paper is organized as follows: section 2 presents the President’s ideology and strategy for socio-economic and structural transformation, and highlights the role of UDC; section 3 tracks Uganda’s socio-economic and structural transformation since pre-colonial times as well as describing the role of the factors of production in Uganda’s industrialization; section 4 provides a critique of select government policies in relation to creation of an enabling environment for industrial development; and lastly section 5 synthesizes the key messages and recommendations.

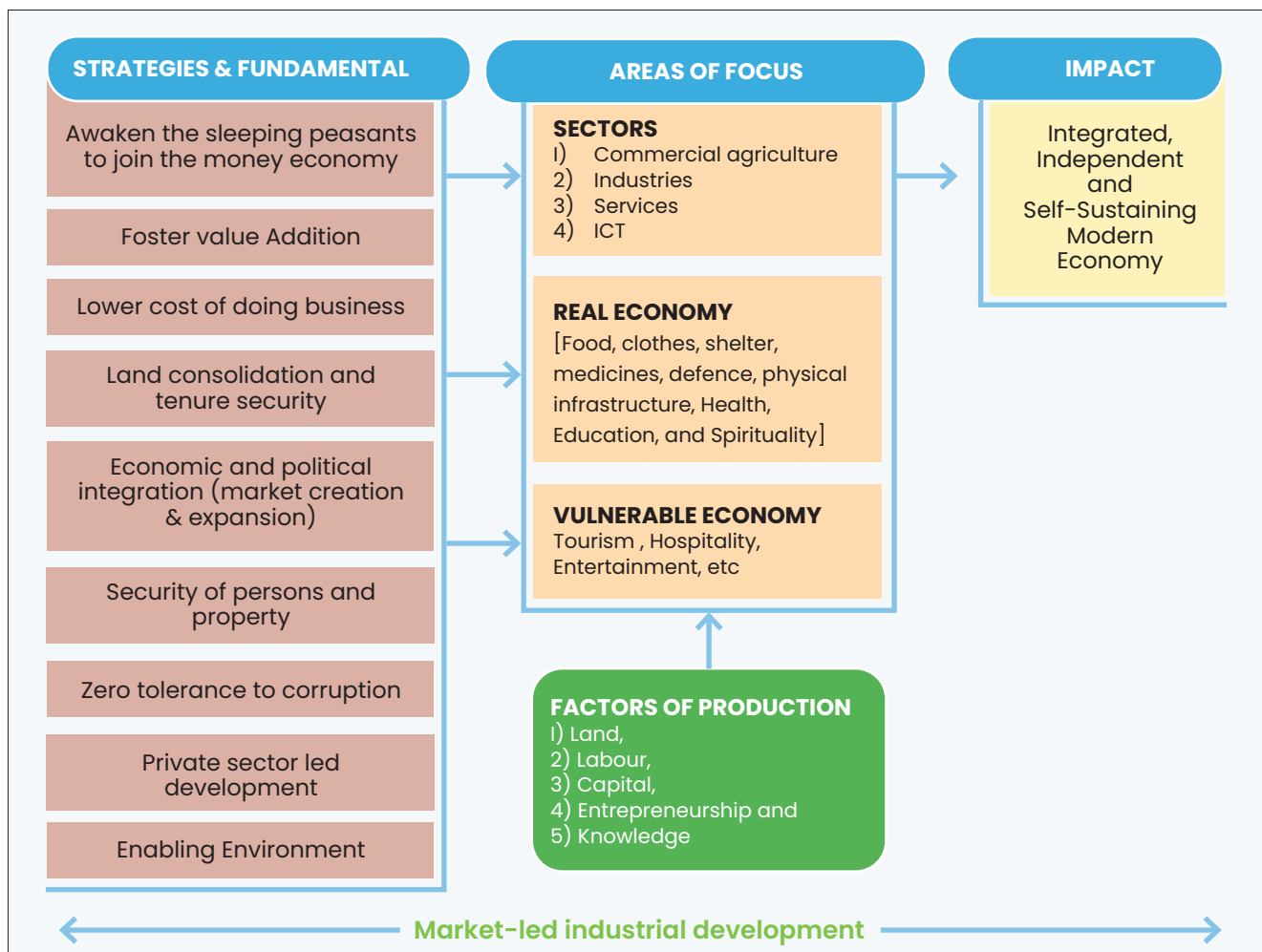


# 2. The President's Ideology of Socio-Economic Transformation

## 2.1 Conceptualization of the Musevenomics ideology

In the book titled "Musevenomics", H.E. Yoweri Kaguta Museveni expresses his desire to cause "social-economic transformation so that we end the life of the peasantry of our society and become a middle-class, skilled working class society a modern society based on a fully monetized economy". The President diagnoses the root causes of slow progress in Uganda's socioeconomic and structural transformation, and based on his enormous experience, education background and insights obtained from reading widely, the President prescribes solutions that he envisions will lead to an Integrated, Independent and Self-Sustaining National Economy. Figure 1 summarizes the flow process of H.E the President's arguments which are further discussed in subsequent sub-sections including how they relate to UDC.

**Figure 1: H.E the President's ideology of socio-economic transformation as stipulated in the Musevenomics book**



Source: Authors' conceptualization of Musevenomics ideology

## 2.2 Why has Uganda not fully transformed into a modern society

Since the mid 1980's, Uganda's economy has moved from recovery to growth (Uganda Vision 2040). However, the economy has grown at a slow pace (about 6% average growth rate since 1981/82 to date) and thus delayed to achieve the NDP II target of attaining lower middle income status by 2020. Nonetheless, this year (2022), the country attained a per capita income of USD 1,046, which is above the lower bound (USD 1,036) that should be sustained for three (3) consecutive years before a country can be classified as a middle income country. According to the President and, the NRM government, the key bottlenecks that have led to slow progress towards socio-economic transformation are;

**Failure to fully eliminate the unprofitable subsistence nature of our societies.** Economic growth has been constrained by the subsistence nature of Uganda's communities. Many homesteads are still locked up in subsistence activities; they do not understand the concepts of specialization<sup>5</sup> and profit maximization. Indeed, available statistics of 2016/17 indicate that a significant proportion (about 39.3%) of Uganda's working population (15.053 million) is engaged in subsistence agriculture only (UBOS, 2020). In the case of agriculture, subsistence production is largely explained by the use of rudimentary practices; majority of the farmers have not adopted improved technologies such as crop varieties and improved livestock breeds.

**Dependency on foreigners thinking that will guarantee our prosperity and security.** The government has for many years relied on Official Development Assistance (ODA) for the large part of its budget. In the health sector, for example, off-budget financing provided by development partners dominates direct public spending to the extent in FY2018/19, out of UGX 5,185 billion of direct public financing, more than half (55 percent) was off-budget. The challenge with off-budget financing is that it is largely ear-marked for specific interventions, which most often leaves many government priority interventions not effectively attended to (NPA, 2020).

**Exporting raw materials of less value.** This challenge has persisted since colonial times to date. Uganda used to supply raw materials (palm oil, cotton, leather and minerals, among others) to European factories; and in turn, on average, the country would earn just 10% or less of the value of the final product. This implies that 90% of potential value is lost when the country continues to export raw or semi-processed commodities. Adding value at source will create jobs for the people of Uganda and minimise job exports.

**High cost of doing business.** H.E. the President stresses that businesses cannot be profitable and competitive globally unless input costs are low. Taking the example of electricity, the unit cost of energy for the period April to June 2022 were; 12.5 USD cents for medium industrial consumers, 10 USD cents for large industrial consumers and 8.5 USD cents per kilo watt-hour for extra-large industrial consumers (ERA, 2022). According to H.E. the President, the average energy charge for industrial consumers needs to be reduced to at least 5 USD cents per kWh.

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<sup>5</sup> The President concurs with Adam Smith (author of the book "The Wealth of Nations") that specialization and division of labour and exchange creates efficiency in production and stimulates wealth creation.



**Land fragmentation on inherited land and illegal evictions of occupants of Bibanja on Mailo land and Public land.** Land fragmentation has rendered land to lose its economic importance because people cannot do any meaningful commercial agricultural activities on fragmented land. Related to the President's view, an empirical study conducted in Uganda confirmed that land fragmentation affects the choice of, and the amount of land allocated to perennial crops (Mwesigye & Barungi, 2021); this affects production and availability of raw materials needed to foster industrial growth.

**Fragmented and undeveloped markets.** The internal (domestic) market is not enough and markets on the African continent are fragmented. Increased production can only be sustained, if there is increased consumption. Thus, H.E. the President notes that investment in all other factors of production is rendered worthless in the absence of assured markets.

**Corruption and misuse of power.** The corrupt government officials, delay implementation of projects and inflate costs of doing business because the private sector actors are forced to add costs for the thieves. Furthermore, the entrenched corruption in government offices negatively impacts service delivery and renders the country unattractive for quality investments.

## 2.3 NRM's Prescription/Strategy and implications for UDC

Informed by the bottlenecks highlighted above, through his various speeches, H.E. the President has repeatedly guided as follows:

**Target the ordinary people.** The primary target for government interventions should be the ordinary people, especially homesteads that are still "*sleeping*" in subsistence activities. In his words, H.E. the President notes that "subsistent homesteads need to be brought into the culture of creating wealth and jobs". This view has greatly informed many government programmes that target households as the primary beneficiaries. These include; National Agricultural Advisory Services (NAADS) programme, Prosperity for All (PFA), Operation Wealth Creation (OWC), Emyooga programme as well as the Parish Development Model.

**Focus on the real economy.** H.E. the President broadly categories Uganda's economy into two, Real economy and vulnerable economy. The former encompasses the production and supply of food, clothes, shelter, defence, the human resource development, infrastructure, medicine and spirituality. The needs described in the real economy are the constant human needs that must be met to sustain human life on earth, and so their demand is not short-lived. He argues that focusing on the real economy provides a firm foundation on which to build an enduring society and presents economic opportunities along commodity value chains. On the other hand, that the vulnerable economy, that is, leisure and pleasure economy of tourism, hospitality and entertainment includes additional needs, which if available are good to have but if not available, their absence is survivable. H.E. the President notes, once the constant human needs have been addressed, the needs in the vulnerable economy will automatically emerge.

**Factors of production and the need for markets:** Modern Economists recognise that there are five factors (inputs/resources) one needs to produce a good or a service namely land, labour, capital, entrepreneurship and knowledge. However, as already alluded to, H.E. the President notes

that investment in all the five factors to produce goods and services can be rendered irrelevant if there are no markets. Hence, he reasons that market creation and integration is a prerequisite for economic growth.

Further, in his various speeches, H.E. the President has unswervingly pointed out that the following must be prioritized as a means to the sought after middle class, skilled working society;

**Awaken peasants to join the money economy.** In order to get people with small pieces of land out of the practice of growing food only for consumption, a practice the President has dubbed as “*okukorela ekida kyonka*” The President advocates for adaption of the four-acre model where a farmer can use one acre for cash crops such as coffee; allocate another acre for fruit production, the third acre for dairy production, piggery or poultry and the last one for food crops such as maize, beans among others. Given that UDC has several on-going and pipeline agro-industries, promoting commercial farming will increase availability of raw materials for the industries. It should be noted that while one of the core investment principles of UDC is to increase uptake of raw materials, the supply of these by farmers remains limited in some areas to the extent that some factories operate below installed capacity while others have had to pause commercial operations.

**Reduce the cost of doing business.** There are government efforts to minimize the cost of doing business, for example, in order to address the cost of money for manufacturing and agriculture, Government in 2020 capitalized UDB to the tune of UGX one trillion so that the bank could give loans for agriculture and industry at an interest rate not exceeding 12% per annum. In addition to lowering the high interest rates, the unit cost of electricity should be appreciably low if Uganda is to realize its industrial agenda and improve its competitiveness in the manufacturing sector. Whereas the Electricity Regulatory Authority (ERA) revised the electricity tariff structure and committed that Government would supply electricity to industrial consumers at five (5) US Cents per kWh, this target is yet to be attained and as such the high unit cost of electricity remains a big challenge. The impact of high electricity tariffs has not spared UDC investments – some of the Corporation’s investments are still returning losses, partly because of the high costs of manufacturing, especially electricity and fuel (diesel). For example, due to the currently increasing fuel prices, at Bukona Agro Processors, a UDC associated company that processes cassava into denatured ethanol, fuel costs alone accounted for over 96% of direct expenses incurred in the manufacturing processes during the period January to March 2022. Therefore, Government efforts to lower the cost of doing business will benefit UDC by increasing profitability and supporting business continuity.

**Minimise dependence on foreigners to guarantee our prosperity and security.** One lesson from the Coronavirus pandemic was that every country’s chief concern is its own citizens; every country looks out for its own interests. Hence, the need to build an independent and self-sustaining national economy. Indeed, UDC recognizes the need to disentangle from external dependency and pursue self-reliance, especially with respect to the production and supply of critical medical and pharmaceutical products. To this end, in the medium term, UDC in collaboration with private sector players intends to invest in the establishment of;

- a) A biopharmaceutical production plant to produce vaccines and other medical consumables,
- b) An intravenous fluids manufacturing plant, and
- c) A facility for production of surgical and examination gloves.



**Harness regional and continental markets through economic and political integration.** The President notes, Africa has a big advantage of a growing market of one (1) billion people that Uganda can fully utilize through trading in commodities where Uganda has a comparative advantage. Further, he emphasizes that the problem of fragmented African markets can be solved if African countries become economically and politically integrated. Economic and political integration would increase the economic market by reducing or eliminating trade barriers and ensuring coordinated monetary and fiscal policies. The President firmly asserts that greater prosperity and security will be built when we cross the bridge of political and economic integration. However, he implores producers to ensure that they produce quality products that meet sanitary and phytosanitary requirements if they are to gain access to international markets. Indeed, creation of new and expansion of existing markets is very critical for the success for UDC because one of UDC's core investment principles is to improve Uganda's balance of trade position through export promotion. In the absence of international markets, some of UDC's agro-industries that are export-oriented, tea factories, for example, would collapse.

**Pursue private sector led economic development:** In Uganda, the private sector is at the forefront of the growth and development process of the Country. The role of the public sector is to provide an enabling environment through policy, continuous regulatory reforms and provision of good infrastructure (MFPED, 2017). However, where the private sector is constrained to undertake strategic investments, government intervention becomes indispensable. Indeed, Government through UDC plays a catalytic role and de-risks private investments. In a bid to facilitate private sector growth and development, UDC invests in areas where the private sector would not ordinarily invest due to high capital requirement, for example, Kalangala infrastructure services and the Moroto Ateker Cement Factory, among others. Additionally, the corporation de-risks through financing, distressed investments that are at risk of foreclosure, and yet have great potential to sustain and create jobs and promote exports if revived (e.g. the case of tea factories).

**Promote value addition and manufactured exports:** In his speeches, H.E underscores the need to manufacture many high value products for export from the abundant raw materials including minerals, and broaden value addition efforts beyond primary processing. Also, the third National Development Plan (NDP III) recognizes this need and prioritizes efforts towards attainment of rapid industrialisation. To this end, one of the five strategic objectives of the NDP III is to enhance value addition in key growth opportunities namely agriculture, ICT, minerals, tourism and oil and gas (NPA, 2020). This thinking is indeed valid and consistent with the UDC mandate – the Corporation has invested in a number of agro-industries that engaged in manufacturing high value products for export. An example in case is Bukona Agro Processors in Nwoya, an associated company of UDC that produces denatured fuel ethanol from cassava and exports most (>98%) of it to Kenya.

**Educate the citizenry.** H.E the President notes that education brings enlightenment that enables people to get out of the comfort of remaining in the subsistence economy. To this end, Government introduced UPE and USE, even though these are not specifically oriented to entrepreneurship. Additionally, Government has establishment Business and Technical Vocational Education and Training (BTNET) institutions to support the creation of needed employable skills and competencies relevant for national transformational labour market (MoES, 2019). Such efforts by Government will support UDC investments with the needed human resource that is skilled and competent enough to efficiently operate and manage industries.

**Ensure security of persons and property.** The President observes that while security is a fundamental human need, its provision comes with heavy government spending on imported military supplies (such as aircrafts, armored vehicles, artillery, radar systems and missiles). Since security is a daily requirement, there is need to explore domestic production of some of the required security supplies, including street cameras and bombs. This will enable the country to save foreign exchange. Ensuring security would benefit UDC and its investments because in the past, largely because of political upheavals the "old UDC" collapsed and wound up in 1998, yet the Corporation had become the engine of economic growth and development in Uganda with 38 Subsidiaries and 19 associated companies. Besides business closure, insecurity can cause delays in project execution. The "new" UDC, established by the UDC Act 2016 is constrained by insecurity in Karamoja sub-region, and this has delayed completion of the feasibility study that is required before a mining lease can be obtained. Without the lease, UDC cannot progress to the next level of establishing and commercially operating an integrated cement, lime and marble factory in Moroto district.

**Deal with corruption by eliminating corrupt public servants.** Spirituality and morality are believed to help with fighting corruption. The Office of the Auditor General has strengthened its collaborative efforts with other anti-corruption agencies like the Inspectorate of Government, Public Procurement and Disposal of Assets Authority, Financial Intelligence Authority, Uganda Revenue Authority, as well as the State House Anti-Corruption Unit in promoting downward public accountability (OAG, 2021). Given that corruption increases the cost of doing business and impacts the provision of key infrastructure and services, efforts to curb this vice are expected to lead to increased availability of industrial infrastructure. The suitability of locations for established of manufacturing plants is hinged on availability, accessibility and affordability of critical infrastructure and services such as roads, electricity and water.

**Stop illegal land evictions.** The 1995 Constitution of Uganda recognizes six lawful tenants who must not be evicted, and that the rent they should pay, should be nominal, not commercial. These tenants are: (i) the one that was given ekibanja by the landlord or his agent; (ii) the one who was on that kibanja in 1983 or before (bona-fide occupant); (iii) the one who bought from one of the two above; (iv) the one who inherited from one of the two above; (v) the one that was first to settle on the Public land; and (vi) the ones that were settled by the Government (e.g. the



ones government settled in Kisiita, and Kanyaryeru). The President notes that Government plans to expand the Land Fund to compensate the landlords so that they pull out completely and end these shameful land arrangements. The efforts to stop illegal land evictions are beneficial to UDC in the sense that they are expected to lead to increased investment in commercial agricultural under good agricultural practices, which ultimately will translate into increased availability of the needed raw materials by industries.

**Create jobs for the youth.** The youth force should be turned from a liability to an asset by engaging many of them in the manufacturing sub-sector, focusing on the four sectors—commercial agriculture, manufacturing, services and ICT. This approach will enable them produce goods and services for import substitution and export promotion. The unemployed youth and the school dropouts should be organized in groups according to areas of specialization, and be supported using the revolving funds the Government has put in place. UDC is already making efforts to address the challenge of youth unemployment by creating direct and indirect jobs through her subsidiary and associated investment companies. Indeed, in some of UDC's investments, the youth (18–30 years) take up more than half of the total direct jobs, for example, at Bukona Agro Processors in Nwoya, 60% of the factory employees are youth, Mutuma Commercial Agencies (58.5%) in Luuka, Kigezi Highland Tea (53%) in Kabale and Kisoro and Soroti Fruits Factory (50.6%) in Soroti.

**Leverage the Scientists to develop a knowledge-based economy.** The scientists should be capable of producing motor vehicles, fire-fighting vehicles, computers and computer solutions, agro-industrial products, vaccines, and medicines, among others. To this end, the President is committed to ensure that Government scientists are well paid. In line with this particular ideology/strategy, UDC has already initiated processing that will culminate into establishment and expansion of knowledge-intensive industries.

In conclusion, we affirm that the book titled Musevenomics is not a mere compilation of speeches by H.E. The President. The Musevenomics concept brings out key strategies that will led Uganda to the desired integrated, independent and self-sustaining modern economy as summarized in **Figure 1**. There are on-going government efforts to implement the strategies prescribed in Musevenomics book, although the attainment of some of them, e.g. political integration, may not be realized in the medium term. Important to note, public corporations such as the Uganda Development Corporation, are directly contributing to implementation of Musevenomics with a reasonable degree of success.

## 3. Socio-economic and structural transformation of Uganda's economy

### 3.1 Socio-economic transformation

In the previous section, the understanding of H.E the President's ideology and strategies for attaining socio-economic transformation was presented. This particular section, assesses based on select indicators how Uganda has progressed in terms of socio-economic transformation since pre-colonial times. Specifically, we assess changes in population growth rate, life expectancy at birth, GDP growth, poverty, and literacy.

Evidence suggests that reasonable socio-economic transformation has been achieved to a reasonable extent. The population of Uganda is currently estimated to be 44 million people, having increased from about 13 million in 1981/82. Before 1986/87, the population grew at an average rate of 2.2%, which is far below the average growth rate of 3.2% since the NRM liberation in 1986. In addition to the sustained growth in population, life expectancy at birth has greatly increased. In 1985/86 when the economy had collapsed, life expectancy at birth was 48.4 years. This has since increased remarkably to 63.4 years in 2021 (64.5 for females and 62.8 years for males) according to the 2014 population and housing census. Moreover, a reasonable proportion of persons aged 10 years and above is literate. By 1986/87, 56% of the population aged 10 years and above were literate; the country has since then registered an improvement in literacy rates to 73.5% in 2018/19, representing 17.4 percentage points increase. The proportion of the population below the national poverty line has decreased to 20.3% in 2019/20 from 33.8% in 1998/99. At macro level, Uganda's GDP has increased significantly from UGX 41,337 million in 1985/86 to 162,122,724 million in 2021/22. The GDP growth rate which had fallen to a miserable level (0.6%) in 1985/86 was restored in 1986/87 to 3.9% and has since continued to grow at an average rate of 6.2%. Similarly, GDP per capita has tremendously increased to USD 1,046 in 2021/22 from USD 3 in 1985/86. Thus, Uganda is qualified to transit to lower middle-income status.

The great gains in socio-economic indicators are attributed to a number of factors including rising living standards, improved lifestyle and better education, as well as increased access to better quality health services. As alluded to by the President, while in the early 1980s and before then, children were dying in mass numbers from preventable diseases, this is no longer the case – immunisable disease have been well managed through mass immunization campaigns and decentralization of health service provision. The reasonable progress on social indicators is in part attributed to the signing of the United Nations Millennium Declaration which committed signatory Heads of States to pursue and attain the Millennium Development Goals. The improvement in socio-economic indicators should be harnessed to promote market-led industrialisation. The increasing population, especially for the youth form a platform for boosting production of raw materials and on the other hand, for providing market for industrial products. Thus, efforts to further skill the population and enhance purchasing power should be stepped up.



## 3.2 Pattern of structural Transformation in Uganda

In section 3.1, we noted that Uganda has made great strides on socio-economic indicators. However, it should be noted that socio-economic development can only be sustained if there is gradual reallocation of labour and other productive resources to more productive sectors. This process is known as structural transformation, and it involves. The transition of an economy from low productivity and labour-intensive economic activities to higher productivity and skill intensive activities. This section shows the pattern of structural transformation in Uganda based on a few commonly used measures namely, sector contribution to GDP and employment, Index of Production (Manufacturing),<sup>6</sup> and Manufacturing value added.<sup>7</sup>

Over the years, there has been a transition of the economy from predominantly agrarian where the agricultural sector contributed over 50% to GDP in the 1960s. Services have dominated GDP shares as envisioned in the country's long term plan albeit below the Vision target of 52.1%. The share of services increased from 35.7% in 1981/82 to 48.5% in 2009/10 before declining to 41.9% in 2020/21; while the share of industry in GDP increased from 12.7% in 1981/82 to about 27.1% in 2020/21. In line with the principle of structural transformation, the share of agriculture sector in GDP declined from over 45.9% in 1981/82 to about 23.8% in 2020/21.

During the 20-year period, the employment share of agriculture has declined by 11 percentage points, while the employment share of services has increased by 2.5 percentage points. Although there has been a transition from agriculture to services, majority of Ugandans are still employed in the Agricultural sector (68.1%). Furthermore, the labour shift has not driven jobs to manufacturing, which should be a higher productivity sector. In the Ugandan case, manufacturing is characterized by low-value primary agro-processing involving minimal innovation (African Development Bank, 2021).

Focusing on the industry sector, evidence suggests that Uganda's capacity to produce and export manufactured goods competitively has greatly improved over the years. The competitive industrial performance index (CIP),<sup>8</sup> a measure of a country's change in productive capacity and quality of manufactured products, has increased to 0.005 in 2018 from 0.0026 in 2000. Similarly, the CIP rank

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6 The Index of Production (IoP) for the Manufacturing sector in the economy measures changes in the volume of goods produced by the sector. Monthly data are compiled from manufacturing establishments that contribute about 80 percent of the manufacturing value added. The index is computed for eight broad groups namely: Food processing; Drinks and tobacco; Textiles, clothing and foot wear; sawmilling, paper and printing; Chemicals, paint, soap and foam products; Bricks and cement; Metal products; and Miscellaneous.

7 Manufacturing value added (MVA) of an economy is the total estimate of net-output of all resident manufacturing activity units obtained by adding up outputs and subtracting intermediate consumption. When expressed as a share of gross domestic product (GDP), it reflects the role of manufacturing sector in the economy and the country's national development in general.

8 The Competitiveness Industrial Performance Index (CIP) is a flagship index designed by the United Nations Industrial Development Organization (UNIDO) to measure the performance of countries' industrial competitiveness. It is an output oriented composite index based on the notion that by promoting competitiveness, countries maximize economic efficiency in the allocation of scarce resources and are thus able to industrialize more effectively. The CIP index is comprises eight sub-indicators namely: Country's manufacturing value added per capita; Country's manufacturing exports per capita; Share of country's manufacturing value added in world manufacturing value added; Share of country's manufacturing exports in world manufacturing exports; Share of country's manufacturing value added in country's GDP; Share of country's manufacturing exports in total country exports; Share of country's medium- and high-tech industrial sectors in country's manufacturing value added; and Share of country's medium- and high - tech industrial sectors in country's manufacturing exports.

which shows a country's relative position in global manufacturing has improved from 144 in 2000 to 128 in 2020 (United Nations Industrial Development Organisation (UNIDO), 2020). This means Uganda's productive capacity has increased and so has the quality of manufactured products although still below the world average of 0.067.

The volume of manufactured goods is increasing over time as shown by the Index of Production (IoP)<sup>9</sup> for the manufacturing sector that measures changes in the volume of goods produced by the sector. The IoP has increased by about 22% in the past five years from 234.67 in 2016 to 285.91 in 2020. Positive change is noted for some sub-sectors with the following registering the highest annual percentage change in IoP in 2020: bricks and cement (34%); Textiles, Clothing and Foot Wear (about 24%), and Chemicals, Paint, Soap & Foam Products (14.8%) (**Table 1**).

**Table 1: Index of Production, Annual Production levels (2002=100), 2016–2020**

	Weights	Year					Annual % change	
		2016	2017	2018	2019	2020	2019	2020
<b>Total Manufacturing</b>	<b>1000</b>	<b>234.67</b>	<b>245.29</b>	<b>268.34</b>	<b>277.69</b>	<b>285.91</b>	<b>3.5</b>	<b>3</b>
Food Processing	400	211.57	204.14	264.04	251.64	239.79	-4.7	-4.7
Drinks and Tobacco	201	282.89	313.34	324.91	363.34	346.13	11.8	-4.7
Chemicals, paint, soap & foam products	97	292.25	346.41	261.21	316.73	363.47	21.3	14.8
Metal Products	83	162.94	168.53	154.13	149.5	162.78	-3	8.9
Bricks & Cement	75	290.01	295.26	336.88	345.66	463.4	2.6	34.1
Textiles, Clothing And Foot Wear	43	153.37	166.97	170.48	204.08	252.78	19.7	23.9
Saw-milling, Paper and Printing	35	250.56	295.68	324.51	296.62	273.35	-8.6	-7.8
Miscellaneous	66	214.24	202.25	230.61	238.02	248.84	3.2	4.5

Source: UBOS Statistical Abstracts, various series

Not only has Uganda registered reasonable increase in the volume of manufactured goods, the net output (value added) of the manufacturing sector has increased too. Compared to other countries in the region, Uganda has the highest manufacturing value added (MVA) which has also increased tremendously in the last 10 years from USD 4.789 billion in 2012 to USD 8.125 billion in 2021. Despite having the highest MVA in the region, Uganda's MVA is growing at the slowest pace with the compound annual growth rate (CAGR) of 5% (**Table 2**).

<sup>9</sup> The Index of Production (IoP) for the Manufacturing sector in the economy measures changes in the volume of goods produced by the sector. Monthly data are compiled from manufacturing establishments that contribute about 80 percent of the manufacturing value added. The index is computed for eight broad groups namely: Food Processing; Drinks and Tobacco; Textiles, Clothing and Foot Wear; Sawmilling, Paper and Printing; Chemicals, Paint, Soap & Foam Products; Bricks & Cement; Metal Products; and Miscellaneous.



**Table 2: Manufacturing Value Added of Uganda compared with other EAC Partner States**

Country	Manufacturing, value added in USD million										CAGR*
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
Kenya	2,946	4,732	4,957	5,434	5,598	5,798	6,066	6,533	6,615	6,761	9%
Uganda	4,789	6,486	6,608	6,995	7,127	7,177	7,434	7,630	7,598	8,125	5%
Tanzania	379	616	538	583	622	662	752	837	854	944	10%
Rwanda	1,837	3,160	3,475	3,722	4,124	4,464	4,833	5,050	5,178	5,360	11%

Source: World Bank Indicators

In summary, in Uganda, structural transformation is happening as evidenced by the fact that agriculture sector was long overtaken by services as the major contributor to GDP; in the industry sector, the country's productive capacity, volume and quality of manufactured products have all improved over the years. However, contrary to the requirement of structural transformation, agriculture sector remains the major employer of the working-age population. So the journey to structural transformation continues.

### 3.4 The Role of factors of production in Uganda's industrialization

The direction of structural transformation is influenced by endowment of factors of production. This section analyses the factors of production (land, labour, capital, entrepreneurship, knowledge, technology and innovation) in driving Uganda's industrial growth.

#### 3.4.1 Land

Uganda has an area of 241,555 square kilometres (sq. kms), of which 45,318 sq. kms are open water and wetlands while 196,237 sq. km is land (UBOS, 2021). Land is fairly distributed among households throughout the country with the average land holding being about 4 to 6.9 acres in the South and 7.9 acres in the North. Land is a critical resource in terms of the space it provides, the environmental resources it contains and supports, and the capital it represents and generates. Its control, use and management is therefore a critical factor in Uganda to unlock the potential of the productive sectors to sustainably supply raw material for industrialization.

Land ownership in Uganda is defined under the Constitution of the Republic of Uganda which categorizes it into four tenure systems i.e. freehold, leasehold, mailo and customary. The land holding under customary is 68.6%, freehold 18.6%, mailo 9.2%, and leasehold is 3.6%. Of the four, freehold is the most popular among Ugandans and considered to be the most secure as ownership is indefinite with no restrictions on use. Government has made effort to provide tenure security for all land rights holders, however challenges still persist. Some of these include: untitled land which creates a bottleneck of such land onto the land market; illegal eviction of lawful tenants; underfunded land board; corruption in land administrative offices; and land fragmentation which has constrained large-scale production and discouraged the adoption of innovative practices in the utilization of land. Since land tenure insecurity has a negative effect

on use of improved technologies, it undermines efforts to enhance agricultural productivity and production, hence constraining the supply of raw materials to agro-industries. Therefore, front-loading investments in public infrastructure and increasing technology up-take in agriculture and industry will depend on the extent of removal of land tenure constraints across all tenure categories.

Land use planning and management has been promoted to encourage planned industrial development throughout the country. More recently, the National Physical Development Plan was developed and approved by Cabinet to provide a strategic spatial direction for the country and improve land use planning. Under the Plan, industrial and manufacturing regions in the entire country have been clearly earmarked for industrial development. Furthermore, there has been deliberate government policy as stipulated in the Investment Code (as amended 2019) to earmark serviced land for investment through development of industrial parks and free zones. As such, 24 Industrial and Business Parks (IBPs) and four Science, Technology and Innovation Parks (STIPs) have been planned for development around the country. Currently, over 60 percent of all projects in the industrial parks are in those four of the priority sectors being agro-processing, ICT, tourism and mineral beneficiation. The Uganda Investment Authority through the Uganda Land Commission has also been charged with acquiring and transferring leases to investors seeking to develop land.

### 3.4.2 Capital

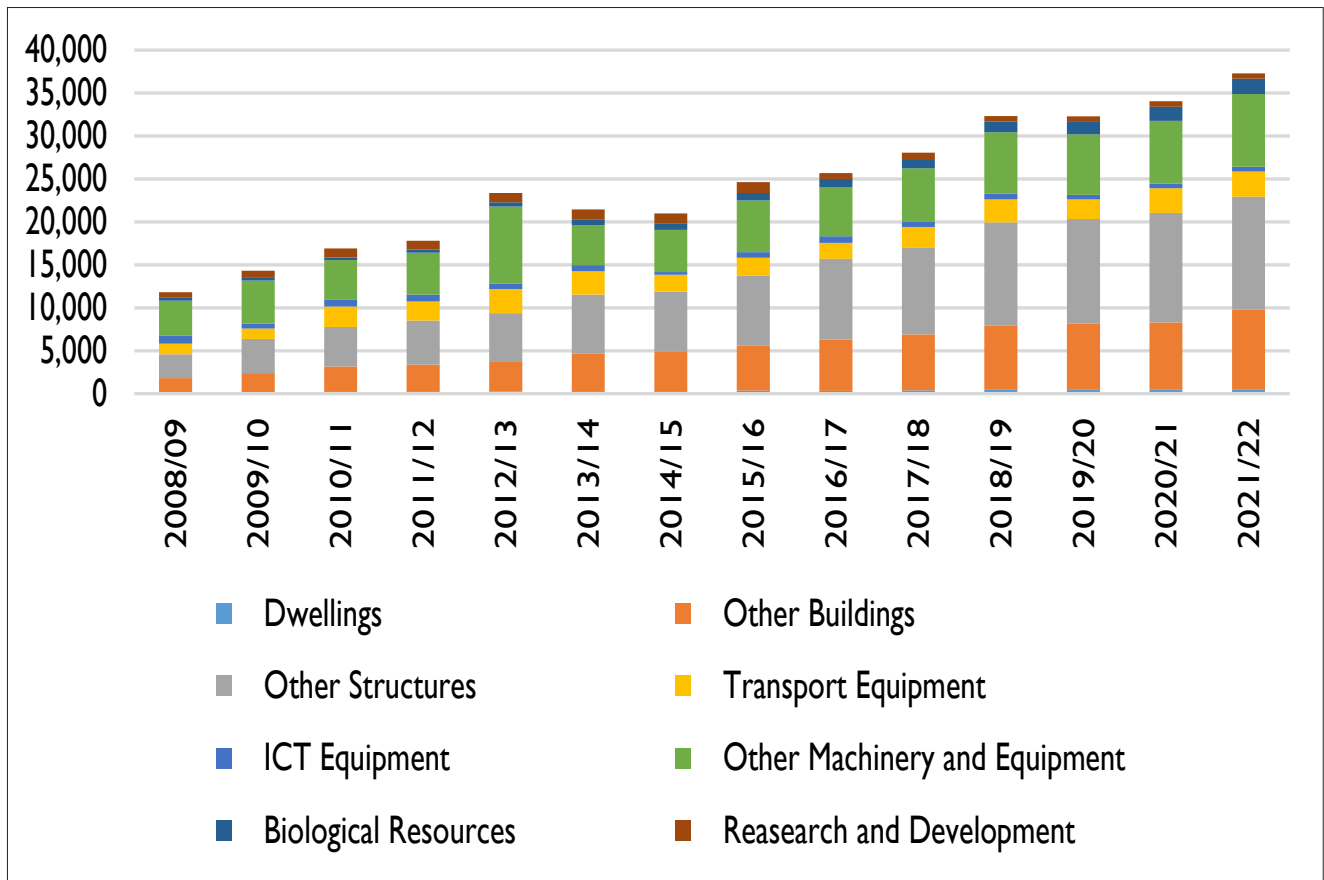
Capital is a crucial production factor for any economy to prosper as it facilitates effectiveness in production. Capital is categorized into financial capital which are the financial resources invested by entrepreneurs to grow their businesses, and physical capital which is the accumulated stock of physical assets i.e. machinery, factory buildings, structures and means of transportation.

#### 3.4.2.1 Physical Capital

Uganda's physical capital accumulation has increased over the years mainly driven by private investment. Despite this, it has stagnated at 24% of GDP and there are still signs of weakness as the composition of investment has shown some shift away from most growth-enhancing areas to non-productive areas biased towards structures. Among the major types of investments, the share of investment in equipment has declined from 38.4 percent in FY2008/09 to 21.2 percent in FY2020/21. In contrast, the share of investment in buildings and other structures rose from 16.1 percent to 22.6 percent and from 26.3 percent to 36.8 percent respectively (**Figure 2**), associated with investment in the non-tradable real estate sector, although such investment is less used in productive activities and hence less growth-enhancing. Sustained growth will need to move from low-productivity investments to modern tradable sectors, particularly manufacturing which requires investment in equipment and other productive assets.



**Figure 2: Composition of Total Investment (Billions of Shillings)**



Source: UBOS Statistics on GDP Expenditure

### 3.4.2.2 Financial Capital

Uganda's financial sector has grown over the years although there is still limited access to and high cost of capital. The credit available to the private sector is characterized by high interest rates, high collateral requirements and short-term in nature. The main source of development finance for businesses is short-term credit mainly from commercial banks where lending rates average 20 percent per annum, the highest in the region. This has negatively impacted on credit expansion and investment, deterring the gross capital formation that has stagnated as earlier highlighted. Private sector credit has increased from UGX 5,062 billion in 2014 to UGX 8,853 billion of which personal loans, trade, and building, mortgage, construction and real estate category continued to take the biggest share of the loans and advances, with averages of 28.2%, 19.4% and 19%, respectively, followed by trade. Manufacturing has accounted for an average of 8.4% of total private sector credit which explains the limited investment in productive equipment. Nonetheless, efforts have been taken by government to provide capital including; concessional lines of credit through the Agricultural Credit Facility (ACF) for agricultural projects mainly focused on commercialization and value addition; and affordable and long-term credit for development of industry through the Uganda Development Bank.

### 3.4.3 Labour

Uganda has one of the youngest and fastest growing populations in Africa which poses both an opportunity and challenge for the country. The Annual Labour Force Survey (ALFS) 2018/19 estimated that more than half (51%) of the total population of Uganda were in the Working Age Population (14-64 years) with an age dependency ratio of 96.6 per 100 persons. Uganda's labour market profile indicates that, the country's Working Age Population (WAP) increased to about 20.7 million in 2019 from 16.5 million in 2012/13. The labour force (WAP) is dominated by the individuals who attained only primary as their highest level of education. The WAP with education level of primary education and below slightly reduced from 72 percent in 2016/17 to 68 percent in 2018/19, a reduction of four percentage points during the two-year period. Overall, these statistics imply that majority of Ugandans join the labour market without the requisite skills. Absorbing a labour force without the essential skills into the formal employment is and will remain a big challenge for some time, and as such, these individuals will most likely dominate the self-employment and low paying jobs thereby widening the informal sector employment. Uganda's challenge thus remains supplying labour force with skills that don't match those demanded on the job market.

Specific to the labour market for industrialization, there have been some efforts to fill the demand and supply gaps in the market. Regarding the law, the Petroleum (Exploration, Development and Production) Act, 2013 and the Petroleum (Refining, Conversion, Transmission and Midstream Storage) Act, 2013 (Natamba,2016) have explicitly linked skills and training to industry. Also, there has been provision of training through public Tertiary, Vocation Education and Training Institutions under the Skilling Uganda Programme. Further, the Uganda Industrial Research Institute (UIRI) in 2019 launched the Uganda Industrial Skills Training Centre, for upskilling in Namanve Industrial Park with the aim to develop an industrial workforce focused on some of the sectors being developed in the industrial park.

Despite the above efforts, skill shortage or mismatches between existing education with the required practical skills and management practices remains a challenge in the industrial sector. Particularly for manufacturing, human resource gaps exist for the following skills; Electromechanical Equipment Assemblers; Manufacturing/Production Engineers; Manufacturing Production Technicians; Material Engineers; Machinists; Ophthalmic Laboratory specialists; Plastic Technology specialists; Manufacturing Robotics Technicians and specialists (National Planning Authority, 2020).

### 3.4.4 Entrepreneurship

Uganda's entrepreneurial landscape is dominated by about 1.1 million Micro, Small and Medium Enterprises (MSMEs) altogether employing approximately 2.5 million people. MSMEs in Uganda are diverse in nature, being spread across a wide range of industrial sectors; as many as ten sectors comprise five per cent or more of the overall base of MSMEs. The highest proportion of MSMEs work in the agricultural sector (14%), followed by the education & health sector (13%), and recreation & personal (10%).

The ease of Doing Business Index helps to understand how easily or difficult it is for local entrepreneurs to open and run a business. Despite the COVID-19 pandemic that affected business operations, Uganda registered an improvement in the ease of doing business index (60)



compared to 57.06 in the previous year 2018/19 and Uganda's ranking improved to position 116 from 127 out of 190, partly because of improvements in the area of starting a business, resolving insolvency, and getting electricity (World Bank, 2020).

Government has intervened to improve the ease of doing business, for example, through the single customs territory, e-registration and e-licensing. However, the cost of doing business remains high. Majority of MSMEs are constrained by limited access to and high cost of finance, high cost of electricity and internet, inadequate road infrastructure, and low entrepreneur skills and business knowledge, among others. Therefore, there is need to make further reforms in improving the framework within which the local enterprises are supported to grow by reducing the cost of doing business, strengthening electronic systems in submission of export and import documentation; reviewing business and procurement laws and regulations in ways that reduce bureaucracy, duplication and tackling public sector corruption especially in enforcement of contracts.

### 3.4.5 Knowledge and Innovation

In 2020, Uganda was ranked among the least innovative countries i.e. 114 out of 131 with a global innovation index (GII) of 20. The country's performance shows that after a brief period of raising GII to 31.1 in 2014, there has been a continual decline to the extent that the most recent GII (20) is actually below that of 2011 (26.4). Uganda's GII is below the 33.86 average GII of the thirty-four upper middle-income countries (2020 WIPO Global Innovation Index Report). Uganda's low GII is attributed to limited knowledge and technology infrastructure such as STI and weak knowledge institutions to support knowledge creation; low researcher density; absence of a National Research Agenda; limited collaboration between the research community, public research organizations, universities, industries, and users; Limited, disjointed and ad hoc funding for R&D initiatives and informality and underdevelopment of the traditional knowledge.

**Table 3: Global Innovation Indices for select countries, 2011 to 2018**

GII rank	Country	Years of score								
		2011	2012	2013	2014	2015	2016	2017	2018	2021
2	Sweden	63.8	68.2	66.59	64.78	68.3	n/a	67.69	68.4	63.1
12	China	58.8	58.7	59.43	56.82	57.23	55.69	53.88	54.62	54.8
57	Brazil	37.75	36.6	36.33	36.29	34.95	33.19	33.10	33.44	34.2
61	South Africa	35.22	37.4	37.60	38.25	37.45	35.85	35.80	35.13	32.7
67	Colombia	32.32	35.5	37.38	35.50	36.41	34.16	34.78	33.78	31.7
77	Morocco	28.73	30.7	30.89	32.24	33.19	32.26	32.72	31.09	29.3
85	Kenya	29.2	28.9	30.28	31.85	30.19	30.36	30.95	31.07	27.5
94	Egypt	29.21	27.9	28.48	30.03	28.91	25.96	26.00	27.16	25.1
102	Rwanda	25.9	27.9	27.64	29.31	30.09	29.96	27.36	26.45	23.9
112	Ghana	32.48	29.6	30.60	30.26	28.04	26.66	n/a	24.52	22.3
119	Uganda	26.4	25.6	31.21	31.14	27.65	27.14	26.97	25.32	20.0
120	Algeria	19.8	16.8	19.32	12.66	14.95	n/a	15.64	15.04	19.9

Source: WIPO, Global Innovation Index Reports

Despite the above ranking, Uganda's GII score exhibits relative strengths in some few areas, including the regulatory environment, general infrastructure (mainly electricity access and communication infrastructure including roads) and innovation linkages (positive aspects are the percentage of R&D funding from abroad and reported linkages between industry and university researchers). This has been attributed to various government efforts including: Operationalization of grants mechanisms to support R&D for ST&I such as The National Science & Technology Innovation Program (2014 - 2018), The Presidential Initiative for Science & Technology (2010-2020) and the Research and Innovation Fund (2017- ongoing); and Improvements in the institutional environment for coordination of STI. As a result, problem responsive innovations such as the menstrual pad sterilizer, aflatoxin and moisture detecting technologies have been developed.

### 3.4.6 Technology

The contribution of technology is inter-related with that of the knowledge factor and the two may be considered secondary factors of the labour component because they concern human input. In the context of industrialization, the influence of technology is usually manifested in one or more of the following areas which maybe cross-cutting with the knowledge factor;

**Technology Transfer (TT):** It involves not only importation of technology but also building local capacity to operate, maintain and further develop the technology. It is preferred where majority of inputs especially raw materials can be sourced locally. The COVID-19 pandemic accelerated transfer of technology for producing sanitizers and personal protective equipment. However, before the pandemic, there were initiatives in industries like chemical (paints, fertilizer), pharmaceutical (joint venture between Cipla and Quality Chemicals) and automotive (developing and assembling motorcycles, tractors and their spare parts).

Technology Importation (TI) is where the entire assembly lines are shipped along with the personnel to operate and maintain but no effort to build local capacity. It is a faster way for a country to industrialize but is not sustainable because of the dependence on foreign ownership. Government can mitigate this risk by developing parallel programmes to accelerate transfer of critical imported technology through technical institutes, public universities and internship programmes.

The downside of TT is that it usually has high intellectual property costs involved on top of the requisite high capital investments. It also requires continuous graduation of a fairly large number of scientists. It can easily result in white elephant projects if not done strategically (prioritising critical technologies only). Advanced economies tend to sell off their low-end technologies which are not very efficient or friendly to the environment to countries where industrialization is still in its infancy.

**Innovation and Invention:** While this is a wide cross-cutting concept, in the context of this paper, it involves locally developing new or existing technology for purposes of commercialization. Innovation is the alternative to Technology Transfer and Importation as it provides for technology development and reverse engineering. In Uganda today, innovation doesn't contribute much to the mainstream industrial sector. However, the "juakali" innovations are



the backbone of the Agro-processing industry because they fabricate the majority of light (diesel and electric) motor-driven machinery for threshing and grinding which are preferred by small scale farmers. The metal fabrication industry, which is the biggest consumer of rolled steel products, particularly relies on locally assembled welding transformers. While there are many other locally developed technologies for irrigation, water harvesting, water purification, mechanization of agriculture, oil pressing, food processing etc, they lack the industrial designs for mass production because they usually originate from individual (or group of) innovators with little or no documentation and standardization in their methods. These locally developed technologies usually lack an efficient maintenance and support system for users. The national innovation eco-system that would help to identify and nurture local innovations is weak and poorly coordinated.

**Research and Development (R&D):** R&D processes help to improve the quality of existing products, develop new superior products and improve production processes to make them more efficient and cost effective. R&D produces new knowledge and new technology. Uganda's R&D in the industrial sector has mostly resulted in commercialization of processed foods (especially snacks) and beverages (soft drinks, wines and spirits) as well as pharmaceuticals (especially herbal). Government expenditure in R&D mostly involves dealing with pathogens and improving crop resilience and yields. The improved crop yields have resulted in an increase in packaged grain, cooking oil, starch, sugar and banana flour. The main challenges facing R&D in Uganda are low investment by both Government and private sector; weak intellectual property rights protection; low purchasing power of consumers (prefer quantity over quality); and limited capacity in terms of both skilled personnel and requisite equipment/tools.

**Information and Communication Technology (ICT):** ICT is essential for industrialization as it facilitates communication, data processing and cashless payments. Uganda has increased telecommunication penetration, internet connectivity and bandwidth and also made huge leaps in digitalization of government services. There has also been a lot of innovation especially in Fintech (applications for financial transactions) and Ecommerce. The result is improved convenience and efficiency as well as a lower cost of doing business. It has also increased access to suppliers and customers within the country and abroad. ICT also provides essential tools for computer aided design, automation, artificial intelligence and remote assistance which are essential for modern industrialization. Uganda now manufactures phones and PCs and has capacity for circuit board printing.

However, the cost of internet is high and there are a number of reliability and data security/privacy concerns. Additionally, majority of critical technology is imported with high license and support costs. Automation and data warehousing are also still low, meaning majority of businesses are mostly using ICT purely for business administration and not for gaining strategic advantage in the market. The main achievements in ICT are increased penetration of voice, data and digital TV; increased local capacity for application development and maintenance; and reduced cost of ICT equipment.

The success of Uganda's industrial policy will depend on the extent to which there is increasing creation of knowledge and intensive use of technology, with a competitive advantage rooted

in innovation and ideas. His Excellency President Museveni noted the need for the Uganda to transform socio-economically from predominantly peasant to a modern money economy driven by scientific knowledge. Government should address the high energy costs (electricity and fuel), high connectivity costs, weak IP regulation, low number of skilled personnel for operation and maintenance, poor quality skills development (falling short of international certification standards).

In conclusion, Uganda has made considerable progress in improving the five factors of production (land, labour, capital, entrepreneurship and knowledge). However, challenges as highlighted above for each factor remain to be addressed. Further, H.E. notes that investment in all the five factors to produce goods and services will be rendered irrelevant if there are no markets. Hence, the need to harness regional and continental markets through economic and political integration. Integration will grow the economic market by reducing or eliminating trade barriers and ensuring coordinated monetary and fiscal policies.



## 4. Policy environment for industrial development

This section examines the policy environment for industrialization in Uganda, by reviewing and analyzing key policy changes since the 1900s to date. The scope of policy changes cover the 1900 Buganda Agreement, Promotion of commercial commodities (the 3Cs and 3Ts) by the colonial masters, Nakivubo Pronouncement of 1970, Formation of public corporations, Adoption of liberalisation policies, and the National Industrial Policy (2020). The analysis delves into the opportunities that the policy changes create(d) for industrial development (i.e. how they enabled industrialization); and barriers that the changes present(ed) to industrial development.

### 4.1 The 1900 Buganda Agreement

The Buganda Agreement was reached between the Buganda Kingdom and the Protectorate Government (British Colonial Government). On the one hand, the British colonial interests were to: politically control Buganda territory at low cost; expand British markets; establish Christian missions; and civilize Africa. On the other hand, the Buganda Kingdom sought to consolidate political power and institutionalize gains from revolution. The agreement was hinged on three key tenets that address governance related issues namely; power sharing, government finance, and land governance system. It is noted that certain provisions within the Agreement were barriers to industrial development as discussed below.

**The agreement did not explicitly provide for systematic planning for the development of industries in Uganda.** Therefore, industrialization was not an area of focus for development. For example, unlike for other sectors, there was lack of standing committee responsible for industrial development. The agreement had provision for establishing standing committees (i.e. committees of Lukiko) responsible for finance, public works, education, health, natural resources, and local government and community development. This could have been a deliberate strategy by the colonialists to keep Uganda as a source of raw materials for industries in Europe rather than develop industrial hubs in Uganda. In 1900, industrialization was already taking place in Europe, but it was not planned for in Uganda under the agreement.

Whereas the agreement did not have specific provisions for industrial development, it had implications for industrialization agenda in a number of areas through; hindrances that arose from unfair power sharing and finance governance system, limitations for East African Federation, and land use. Pertaining to power sharing and finance governance, the protectorate government had a lion share in administration and revenue sharing. Thus, industrial development interventions were never prioritised and could not be adequately financed, and the industrialization agenda would not take precedence at policy level.

**The Agreement did not support the idea of the East African Federation (see page 2 of the Buganda Agreement signed on the 18<sup>th</sup> day of October, 1995).** This limited opportunity to support economic transformation generally, and in particular industrialization as a tool for transformation.

Specifically, industrialization was constrained due to foregone opportunity to promote linkages across the region, particularly in regard to trade in services, which reinforces the manufacturing and/or industrial sector. Furthermore, potential markets for industrial products and raw material sourcing for manufacturing sector were constrained. This colonial policy position contradicts the emphasis on regional economic integration by the current leadership (H.E. the President of the Republic of Uganda).

**Private land ownership and use was not possible in Buganda, after the enactment of the Agreement.** Limited land rights arising from the Agreement posed a hindrance to the production of raw materials that could feed into agro-industries. Until today, Uganda is still experiencing the impact of the Agreement which severely hampers industrial development. Land fragmentation challenge is likely a consequence of the land ownership and user arrangements introduced during colonial times, further inhibiting agricultural mechanization and industrial development including establishment of industrial parks.

In conclusion, the Buganda Agreements constrained creation and expansion of markets for industrial products within the East African region due to lack of support for East Africa Federation; uncertain land ownership and use rights that must have prevented capital investments in production of raw materials and establishment of industries; and inadequacy of institutional and legal policy framework under the agreement to drive industrialization agenda.

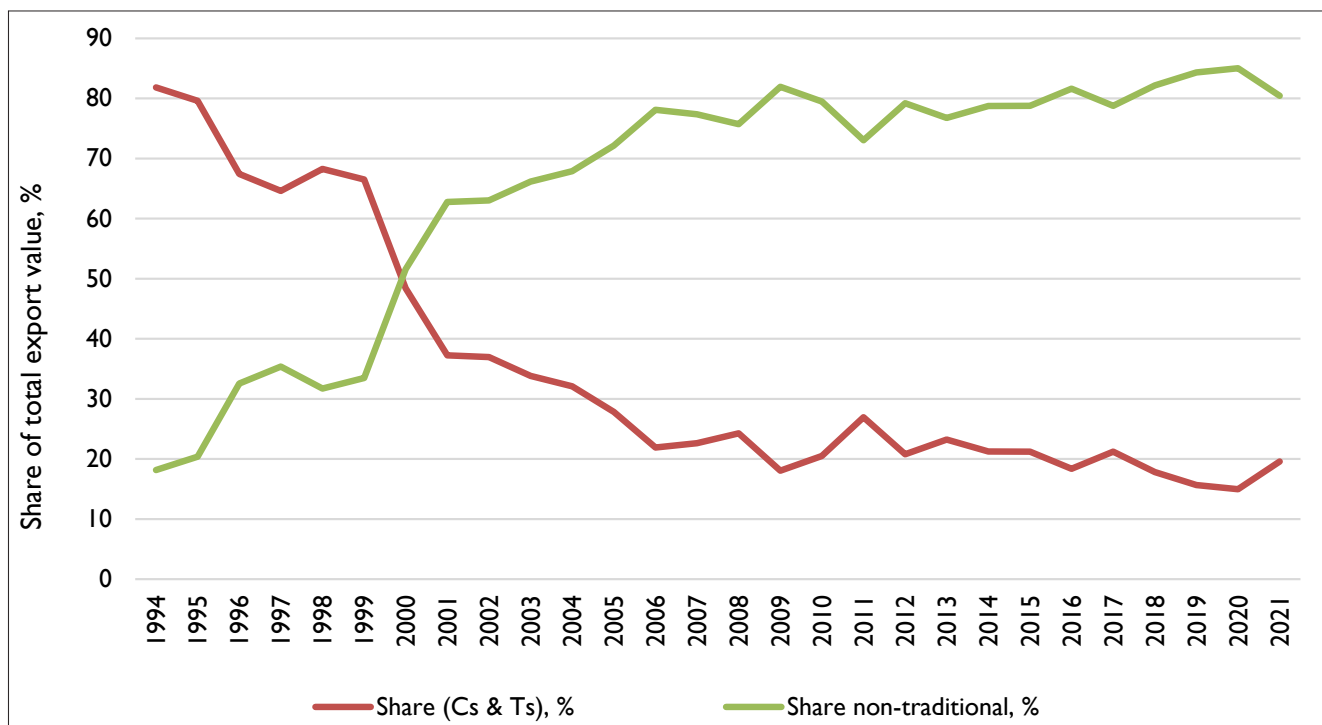
## 4.2 Promotion of the 3Cs and 3Ts by colonial masters

Uganda's colonialists had interest in a few specific commodities that they wanted to buy from Uganda for industries in their countries of origin. Accordingly, by 1962, the economy of Uganda was described as an economy of the 3Cs (Coffee, Cotton and Copper) and 3Ts (Tobacco, Tea and Tourism). It was only these six commodities (3Cs and 3Ts) that were defined as commercial. In the subsequent text we discuss how the focus on the 3Cs and 3Ts promoted/constrained industrial development.

**Harnessing export revenue for industrial investments.** The 3Cs and 3Ts have been the predominant commercial commodities for decades, since colonial times. These commodities have significantly contributed to Uganda's export revenue. For example, by the year 2000, the combination of coffee, cotton, tea, and tobacco alone (excluding copper and tourism) contributed almost a half (48.3%) of the total export revenue. In the early 90s and before, the 3Cs and 3Ts contributed to more than 80% of total export revenue (**Figure 3**). The export revenue from the traditional export commodities have considerably increased overtime. This export income provides an opportunity for investing the earnings into industrial activities, as well as the necessary infrastructure for industrial development. Commercialization (in this case using exports) is crucial in nurturing innovations for industrialization. This is because a steady increase in export revenue is an important driver of ability to innovate. Furthermore, commercialization through the 3Cs and 3Ts is critical for improving the country's trading opportunities, which is a precondition for industrialization. However, Uganda's export revenue is below potential, given that the country has been majorly exporting semi-finished products since colonial times.



**Figure 3: Contribution of the Cs and Ts to total export value, %**



Source: Author's computation using export data from Bank of Uganda

### Industrial initiatives were introduced as a result of the Cs and Ts as explained below;

**Cotton ginning:** The first attempt to gin cotton in Uganda is after it was introduced by the colonial government in 1904. At the time, the colonial government introduced cotton ginning by selling 62 hand gins to African chiefs (UNCTAD, 2018). This was an initial enabler for Ugandans to venture into value addition, although at the lower end (upstream), and upstream industrial activities have remained prevalent in Uganda up to now. However, the colonial government later withdrew the hand gins due to lack of skills among the chiefs – the colonial government did not invest in industrial skills for Ugandans. This led to the collapse of the value addition effort in Uganda. Ginning was then done in Kenya, and the cotton lint exported to Britain to service British Textile Mills in Liverpool (*ibid*) – this implies Uganda exported a number of jobs at the same time.

**Availability of raw materials from Cs and Ts:** Due to availability of raw materials, private industrialists, particularly of Asian origin (especially Indians) were attracted to introduce factories in the country. For example, after the collapse of hand ginning, cotton ginneries were later introduced in Uganda (from around 1906). The ginning factories were established, majorly by private Indian industrialists due to abundance of raw materials. Currently in Uganda, out of the 39 cotton ginneries, 33 are privately owned, and 6 are owned by cooperatives (UNCTAD, 2018).

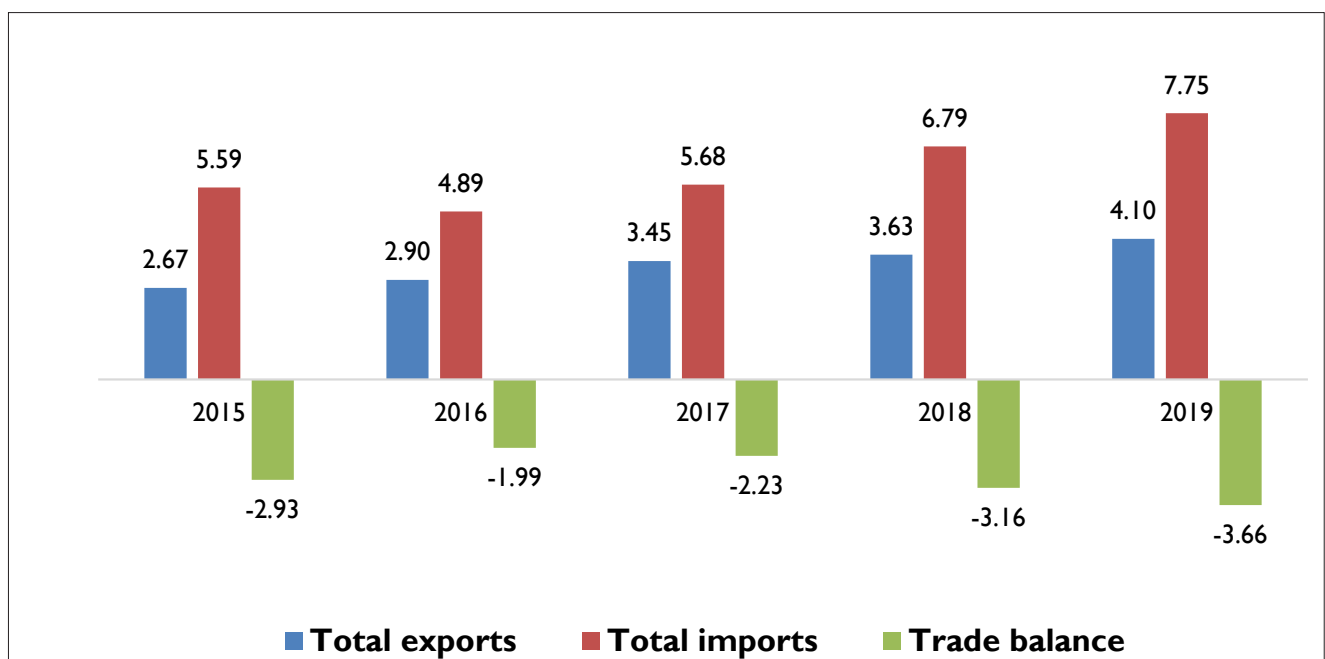
**Tea growing attracted investments in factories:** Specifically, for tea, it is the only commodity which encouraged the establishment of industries because of its nature. Tea is highly perishable, hence tea factories had to be established in Uganda especially in the major tea growing areas. This accelerated industrial growth and development in the sector.

**On the other hand, the focus on the 3Cs and 3Ts might have slowed down industrial development because of the limited range of raw materials.** The narrow focus did not give room for the growth and development of other industries (e.g., fruit factories, pharmaceuticals, soap, etc). Any industry established outside the realm of the 3Cs and 3Ts would potentially collapse due to gross inadequacy or total lack of raw materials. As such, diversification of industries, and/or industrial activities was nearly impossible, unless through expansion of the product space.

**The colonial government promoted export of raw commodities, this has made most industrial firms to remain stuck at the bottom of the commodity value chain, right from colonial times up to now.** Production for export of raw materials could not significantly drive industrial development. For example, coffee has been, and is still majorly exported in raw form (i.e., green coffee beans). Similarly, the British textile industries provided huge demand for semi-processed cotton (cotton lint), hence, Uganda could only focus on producing raw materials that feed into the British textile industries, which limited industrial growth and development especially in regard to production of finished or advanced industrial products.

**Exporting the commodities in primarily raw forms, coupled with huge import bills for finished products has resulted into unfavourable Balance of Payments (BOP) position for Uganda for a long period.** The unfavorable BOP position is reflected in negative trade balance consistently encountered (and rising trade deficit in particular) over the years (**Figure 4**). For example, in the textile industry, Uganda largely exports cotton lint, and imports manufactured garments (cloths – both new and second hand). The poor BOP position has been, and is still a huge bottleneck to industrial development, given that it constrains the country's capacity to invest in industries due to deficits.

**Figure 4: Uganda's trade balance (billion USD); 2015 -2019**



Source: Author's computation using external trade statistics (UBOS, 2020)



## 4.3 Formation of public corporations

A number of public corporations were established with the aim of facilitating economic development, by delivering specific mandates and functions to drive development in the country. These include among others; Uganda Development Corporation (UDC), Uganda Development Bank (UDB), Uganda Investment Authority (UIA), and Uganda Industrial Research Institute (UIRI). This paper uses the case of UDC and UDB to discuss how establishment of public corporations enables economic development through promoting industrialization and possible barriers that the public corporations present to industrial development.

### 4.3.1 Uganda Development Corporation

The Uganda Development Corporation (UDC) was established on April 3, 1952 by the Uganda Development Corporation Act, Cap. 326 with the mandate to: facilitate the industrial and economic development of Uganda; promote and assist in the financing, management or establishment of new undertakings, and undertake research into the industrial and mineral potentialities of Uganda. By 1970, UDC had become the engine of economic growth and development in Uganda with 38 Subsidiaries and 19 associated companies. Then it was the second biggest employer after Public Service, and contributed approximately 33% of the country's total revenue. However, the political upheavals that Uganda experienced in the 1970s to mid-1980s negatively affected UDC's investments to the extent that by the end of the 1980s, most of its subsidiaries were returning losses. The investments became a huge burden on the Treasury, and the Corporation eventually wound up in 1998. Several years later, the Corporation was re-established by the UDC Act 2016 as a statutory corporation with the same objective as before the collapse.

The "new" UDC has enabled industrial development as evidenced from the many (13) revived and new investments since its re-establishment. The Corporation has through financing (equity, shareholder loans and lease) saved factories in the tea and cotton sub-sector from foreclosure due to heavy indebtedness, dilapidated factory infrastructure, lack of requisite machinery and lack of working capital. Other factories like Bukona Agro Processors that had failed to commence commercial operations due to lack of some requisite machinery and working capital, were supported financially to commence commercial operations in May 2021; and the company became the first company in Uganda to produce denatured liquid ethanol for export market. Even though the "new" UDC has not yet fully restored the past glory, it is addressing the challenge of unemployment through creation of direct and induced jobs. The Corporation is boosting export revenues especially from made tea and denatured ethanol. A lot more achievements are expected when UDC expands its investment portfolio.

### 4.3.2 Uganda Development Bank

The Uganda Development Bank (UDB) was established in 1972, with the purpose of accelerating socio-economic development through sustainable development financial interventions in industrial development and other key growth sectors of the economy.

Through development financing initiatives, UDB supports viable projects in the industrial sector, with the goal of catalyzing industrial development processes. The overall aim is to transform Uganda into a modern and industrialized economy – the focus is to industrialize Uganda, as one of the high impact goals of the bank.

The industrialization drive by UDB is aimed at facilitating import substitution and local content value-addition. The pathway is through boosting industrial outputs to satisfy domestic, regional and foreign markets for industrial products. Specifically, UDB plays a critical industrial development-driving role by financing the following;

- i. Construction of factory warehouses
- ii. Purchasing or acquisition of equipment and machinery required by industries such as; paper-making and printing, packaging and wrapping material manufacture, chemical and industrial product manufacture, pharmaceutical product manufacture, and manufacture of electrical products among others.

Furthermore, to drive industrialization, the bank has been keen on supporting manufacturing and mineral-based industries. On manufacturing, UDB catalyzes industrial development by supporting agro-industrialization. The bank provides value chain interventions aimed at agricultural produce value addition. This is done by financing agro-processing equipment, and post-harvest handling among other areas. Mineral-based industry development targets - cottage, small, medium and large size industries. Here, UDB's interventions seek to enhance the value of industrial exports to total exports. Lastly, the bank facilitates industrialization by supporting initiatives towards sustainable industrial development, for example, by promoting sustainable industries including non-material intensive industries, and use of energy efficient technologies.

#### **4.3.3 Other public corporations**

In addition to UDC and UDB, the government established public entities that play critical roles in driving industrial development. These include;

**Uganda Electricity Board (UEB):** The UEB was mandated to play the twin role of energy (electricity) generation and regulation. The board facilitated industrial development in Uganda through generating, transmitting and distributing energy (electricity) for industrial consumption among other energy usage. After enactment of the Electricity Act 1999 as part of the reforms in the electricity sector, UEB was unbundled into; Uganda Electricity Generation Company, Uganda Electricity Transmission Company Ltd; and Uganda Electricity Distribution Company Ltd.

**Uganda Investment Authority (UIA):** The UIA promotes industrial and other investments through identifying market investment opportunities; creating information access to local and foreign investors, and business support including advisory and advocacy services. Under the current National Industrial Policy, UIA is responsible for contributing to industrial development through; allocation of space to investors in the established industrial and business parks; and undertaking measures to facilitate investment in priority value chains.

Other public entities that are key in facilitating industrial development include; Uganda Export Promotion Board, Uganda Industrial Research Institute, and Uganda Free Zones Authority.



## 4.4 The Nakivubo pronouncement

The Nakivubo Pronouncement was made in 1970. It was a commitment issued by the then President, H.E. Milton Obote. Specifically, the pronouncement outlined increased nationalization of major industries, mainly targeting the achievement of socialism in Uganda. This was the so-called "Move to the Left" action, which sought to strengthen state participation in the economy.

According to the pronouncement, the government took 60% (from  $\leq 51\%$ ) of over 80 corporations in Uganda – to be run by state corporations, trade unions, municipal councils and cooperative unions. These included manufacturing and mining industries, among other entities. Following the policy shift, government monopoly would be enforced in Uganda's import-export markets, with the exception of oil. Foreign investors were meant to be compensated out of the post-tax profits of the corporations themselves over the next 15 years.

The move to nationalize manufacturing and mining industries was well intentioned, with the aim of increasing the role of the state in industrial development through direct state or national interventions to accelerate industrial development. A direct interventionist policy action to industrialization is crucial for propelling industrial development if effectively implemented. Although this could have stifled the growth of the private sector, it was a good move because then the private sector was not strong enough to drive industrialization and overall development.

However, the interventionist policy was ineffective. The nationalization agenda through the pronouncement was not fully achieved. It was unsuccessful, and thus never yielded the full nationalization goal. Finally, the government never took control of major industries in Uganda. Therefore, the state intervention to accelerate industrial development through the pronouncement was ineffective. One of the reasons as to why nationalization was not successful is because of the inefficiencies introduced – for example, all the nationalized entities were taken to be managed by the Uganda Development Corporation (UDC). UDC was overwhelmed and became inefficient in managing and running the entities. Moreover, the entities themselves were already weak.

The negative effect of the pronouncement is that the action squeezed investors and industrialists (including skilled private sector) out of commercial enterprises. It created a lot of uncertainty, especially on the side of foreign investors – for example, there was expulsion of the Asians. As a result, most foreign investors started to rapidly pull their money out of the country, and this had disastrous consequences for the economy, and for industrial development in particular. It led to loss of confidence among potential foreign investors in the industrial and other sectors of the economy. This retarded progress of the industrial sector. For example, potential benefits from industrialists were wiped out<sup>10</sup>. Some examples of lost opportunities included;

- (a) "Before the Nakivubo Pronouncement, oil companies operating in the country had approached the government, with an offer of a chance to take up about 50 per cent interest". This was potentially lost.
- (b) A prominent Uganda Indian industrial capitalist (i.e., Madhvani) had offered the government 50 percent participation in their holdings". This was also a missed opportunity in the industrialization journey.

<sup>10</sup> <https://www.monitor.co.ug/uganda/special-reports/uganda-50/was-obote-s-nationalisation-drive-in-1970-a-necessary-evil--1524116>.

## 4.5 Adoption of Liberalisation and Privatization policies

Uganda adopted liberalization policy in the early 1990s (1992 – 1992), for example the coffee industry was fully liberalized between 1991 and 1992, and has been (up to date) entirely in private hands. Liberalization was in part implemented through privatization of some public entities. Available information indicates that at least half of the public enterprises that were divested formerly belonged to UDC. As at September 2000, 105 enterprises had been divested and of these, 53 were previously owned by UDC. The divestiture involved striking 31 companies off the register of companies, with UDC accounting for about 52% of the deregistered companies

**Direct state industrial investments subdued:** Liberalization and privatization curtailed the role of government in driving industrialization through direct state industrial investments and/or interventions. State intervention is key for nurturing industries, by ensuring that government is in the driving seat of industrial investments – comparatively, advanced economies implemented government interventions to protect domestic industries during the infancy stages of industrialization.

**Weak private sector capacity:** Privatisation was implemented when private sector's capacity to drive industrial development was still weak. There were no efforts to develop private sector capacity for industrial development (e.g., in terms of industrial skills development and capacity utilization of industries). This was a hindrance to industrial development.

**On the positive side, liberalization and privatization enabled industrial development by attracting Foreign Direct Investments in industries.** Liberalization generally increased participants in the economy, for example, investors in industrial activities, and generally private sector actors. Both foreign and local investors increased, culminating to growth of other economic activities as well – for instance, the hotel industry, transport, and other sectors which are key for boosting demand for industrial products. Foreign Direct Investments were boosted, due to removal of controls that previously hindered free flow of goods and services. The FDI flows rapidly rose, and Uganda became one of the top FDI recipients in Africa. Uganda attracted an average of US\$250 – 300 million worth of FDIs per annum, following the liberalization period, and this significantly increased in the subsequent years. Overall, this greatly contributed to improved industrial competitiveness. Using the cotton sector as a case, after liberalization, the government (through Cotton Development Organization) and other partners provided an enabling environment for the private sector to rehabilitate cotton ginneries. There was also return of the Asian Property and the Custodian Board property. Ultimately investor confidence was restored. Investor confidence was also partly driven by government subscription to the Multilateral Investment Guarantee Agency, which protected investors against non-commercial risks and enabled access to financing, hence attracting FDIs.

**International markets for goods processed from Uganda were boosted.** This was a driver of industrial activities, for example, as a result of liberalization, Ugandan coffee and other products such as from cotton (although exported majorly in semi-processed form), reached out to a wider array of international market destinations. Furthermore, liberalization of the foreign exchange market enhanced export market. This is because of improved access to foreign currency, and Uganda shillings devaluation which resulted into Ugandan exports being cheaper on the international market. This was a facilitator of some of the industrial products that were processed for exports.



**Liberalization led to a boost in the production of some crops, for example coffee and cotton production, especially during the regime when prices were higher than production costs.**

For example, removal of price caps (or price control) led to higher commodity prices received by farmers, and this stimulated production. This stimulated the raw material base for industries, especially coffee and cotton processing factories.

## 4.6 National Industrial Policy (2020)

The National Industrial Policy (2020) is still new, as such it is not yet fully implemented. Nonetheless, the policy is a potential enabler of industrial development because;

- (i) There is implied strong commitment at top political leadership level. H.E. the President of the Republic of Uganda embraced the ideas in the National Industrial Policy (NIP). In his message in the NIP, he emphasizes “placing the state at the fulcrum of Industrial Development”. This high level political commitment is key for rallying support from different actors to invest in the strategic interventions in the NIP. It is reassuring (e.g. it provides for increasing industrial investor confidence) which is critical for attracting both local and foreign industrial investors.
- (ii) The NIP is as a unifying factor of efforts towards industrial development. The policy brings different stakeholders together. It is expected to support unification of efforts for industrial development, which is a crucial driving force or enabler for industrialization. The NIP provides for the establishment of an Inter-Ministerial Industrial Committee (IMIC) to provide a platform for ensuring effective inter-sectoral linkages and coordination, given that industrial development is multi-sectoral in nature.
- (iii) The NIP 2020 is aligned to the third National Development Plan (NDP III), Uganda’s Vision 2040, and current trends in industrialization. In particular, the NIP is crucial for driving the achievement of Uganda’s industrial development goal in the next five years, through operationalization of the agro-industrialization programme of the NDPIII (2020/2021 – 2024/2025).
- (iv) The NIP provides a blueprint for Uganda’s industrial development. What is contained in the policy is a set of enabling factors or blueprint for Uganda’s industrial development and transformation for the ten-year period (2020-2030). The policy identified priority commodity and mineral product value chains that are crucial for industrial development over the ten years. It identified priority industries for the country namely: agro-processing industries (e.g., fruits, coffee, textiles, cotton, etc.); extractive industries (e.g., iron & steel and oil & gas); and knowledge-based industries (e.g., automobile assembly, electrical & electronic products, and pharmaceutical manufacturing). Identification of the priority industries sets a clear agenda for driving industrial development in the country.
- (v) The NIP provides the basis for government to invest in industrial support infrastructure such as; energy, industrial parks and free zones, water supply, and road infrastructure as well as other forms of transportation infrastructure among others.

- (vi) The NIP provides enabling environment for Research & Development (R&D) and innovations. The policy targets to drive use of research innovations for industrial development.
- (vii) Capitalization of industry-driving institutions. The NIP provides for increase in the capitalization of industry-driving institutions such as Uganda Development Corporation (UDC) and Uganda Development Bank (UDB).

Although there are no major observable barriers to the development of industries in the NIP, it is worth noting that the policy does not explicitly offer strategies for the country to move to advanced stages of industrial development, especially in regard to development of industries that can produce more advanced products (i.e. industries targeting deeper product space) instead of semi-finished products, especially the case of agro-based products that are primarily produced and exported in semi-finished forms. Prioritization of industries for development was not conducted with a forward-looking lens on moving industrial development to the next level of manufacturing more advanced industrial products. This implies that for many years to come, Uganda is likely to be stuck in production and export of industrial products of semi-finished or less superior nature.



## 5. Key Emerging Messages

In the context of this paper, Musevenomics is understood as the H.E. the President's views (ideology) on the strategic direction that can shape the country's industrial and socio-economic transformation. The President is desirous to cause "social-economic transformation.

Since pre-colonial times, Uganda has registered significant improvement in socio-economic indicators, and the positive change should be harnessed to promote market-led industrialisation. For example, the increasing population, especially for the youth should form a platform for boosting production of raw materials and on the other hand, provide market for industrial products. Thus, efforts to further skill the population and enhance purchasing power should be stepped up.

Similarly, structural transformation has and continues to happen, although at a slow pace. Agriculture sector was long overtaken by services as the major contributor to GDP; and the country's productive capacity, volume and quality of manufactured products have all improved over the years. However, contrary to the requirement for structural transformation, agriculture sector remains the major employer of the working-age population. This means the journey to structural transformation continues, and more effort is required to further promote and facilitate industrial development.

In his various speeches contained in the book titled Musevenomics, the President identifies the key bottlenecks that have led to slow progress towards Uganda's socio-economic and structural transformation. These include; failure to fully eliminate the unprofitable subsistence nature of our societies, dependency on foreigners, export of raw materials of less value, high cost of doing business, land fragmentation and illegal evictions of occupants of Bibanja on Mailo land and Public land, fragmented and undeveloped markets, and corruption and misuse of power.

Accordingly, regarding the transformation into the desired integrated, independent and self-sustaining modern economy, H.E. the President in his wisdom underscores the need to; target the ordinary people, focus on the real economy, compliment investments in factors of production with markets, reduce the cost of doing business, minimise dependence on foreigners, harness regional and continental markets through economic and political integration, pursue private sector led economic development, promote value addition and manufactured exports, educate the citizenry, ensure security of persons and property, eliminate corrupt public servants, stop illegal land evictions, and create jobs for the youth, especially in the manufacturing sector.

Uganda needs to pursue market led industrialisation through strengthening linkages between Research and Development, manufacturers of industrial products and the consumers (current and target).

Given that the youth dominate the working age population and yet many remain jobless, further efforts are necessary to harness demographic dividend. Strategic synergies from multisectoral inventions by both state and non-state actors should be leverage. In the case of Government, it should become a requirement for all projects to demonstrate clearly how they will benefit the youth.

The Uganda Development Corporation is directly implementing some of the strategies stipulated by H.E. the President in the Musevenomics ideology. For example, UDC is promoting and facilitating value addition aspect through establishment and revival of agro-industries to increase uptake of available raw materials and spur commercial farming. The industries are providing employment opportunities for the people, including the youth, hence contributing directly to structural transformation.



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