OCCASION

This publication has been made available to the public on the occasion of the 50th anniversary of the United Nations Industrial Development Organisation.

DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as "developed", "industrialized" and "developing" are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

FAIR USE POLICY

Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

CONTACT

Please contact publications@unido.org for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at www.unido.org

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Vienna International Centre, P.O. Box 300, 1400 Vienna, Austria
Tel: (+43-1) 26026-0 · www.unido.org · unido@unido.org

21846

Distr.
LIMITED
RPD.5
4 September 1997
Original: ENGLISH

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

INDUSTRIAL DEVELOPMENT REVIEW SERIES

UGANDA

Sustained stabilization and industrial growth

V.97-26149

This document has not been edited.

The designations employed and the presentation of material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization concerning the legal status of any country, territory, area or city, or of its authorities, or concerning the delimitation of its frontiers or boundaries.

Mention of firm names of commercial products does not imply the endorsement of the United Nations Industrial Development Organization (UNIDO).

The views and comments contained in this study do not necessarily reflect those of the Government of Uganda nor do they officially commit UNIDO to any particular course of action.

CONTENTS

		Page
LIST OF TABLES AND FIGURES		ii
EXPLANATORY NOTES		iv
PREFACE		v
SUMMARY		vi
CHAPTER I.	**THE MACROECONOMIC AND INDUSTRIAL POLICY ENVIRONMENT**	1
A.	Recent economic trends	1
B.	Economic structure	10
C.	Policy environment	22
CHAPTER II.	**THE MANUFACTURING SECTOR**	27
A.	Growth and structural change	27
B.	Industrial employment	32
C.	Productivity and performance	36
D.	Institutional framework for industrial development	38
E.	Ownership patterns	39
F.	Investment patterns	40
G.	Industrial location	42
H.	Environmental issues	42
I.	Trade in manufactures	43
J.	The role of international cooperation	46
CHAPTER III.	**INDUSTRIAL BRANCH PROFILES**	
A.	Food processing and related agro-industries	55
B.	Wood and wood products	68
C.	Textile and clothing	72
D.	Pulp, paper and printing	73
E.	Iron and steel	75
F.	Non-metallic mineral products (building materials)	78
G.	Leather and footwear	82
INDUSTRIAL DEVELOPMENT REVIEWS ISSUED SINCE 1988		87

LIST OF TABLES AND FIGURES

TABLES

		Page
CHAPTER I		
Table I.1.	Key macroeconomic indicators, 1965-86	2
Table I.2.	Annual real GDP growth rates, 1987-1994, selected years	3
Table I.3.	Price developments, 1991-1994	4
Table I.4.	Profile of fiscal developments, 1990/91-1994/95	5
Table I.5.	Balance of payments, 1990/91-1994/95	5
Table I.6.	Profile of population by region, 1980 and 1991	11
Table I.7.	Population breakdown and projections by rural and urban areas, 1992-2015, selected years	11
Table I.8.	Production of selected food crops, 1980-1995, selected years	12
Table I.9.	Agricultural exports, 1990-1995	13
Table I.10.	Trends in mining and quarrying, 1988-1994	14
Table I.11.	Electricity: Installed capacity, 1988-1995	15
Table I.12.	Index of industrial production, 1988-1994, selected years	16
Table I.13.	Demand structure of GDP, 1990-1994, selected years	19
Table I.14.	Structure of exports, 1994 and 1995	20
Table I.15.	Structure of imports, 1994 and 1995	20
Table I.16.	Destination of exports, 1991-1994	21
Table I.17.	Origins of imports, 1991-1994	21
CHAPTER II		
Table II.1.	Contribution of manufacturing to Uganda's GDP, 1986/87-1994/95	28
Table II.2.	Manufacturing production, 1989-1994	30
Table II.3.	Structure of MVA, 1989	31
Table II.4.	Employment (absolute numbers and relative share) in the manufacturing sector by main subsectors	33
Table II.5.	Education statistics, 1987, 1990 and 1993	34
Table II.6.	Female participation (in manufacturing sub-sectors with at least 100 female employees), 1989	35
Table II.7.	Female participation in education, 1970 and 1992	35
Table II.8.	Share of manufacturing value added in gross output, 1989	36
Table II.9.	Value added per person employed by industrial group, 1989	36
Table II.10.	Ratio of compensation to value added by industrial group, 1989	37
Table II.11.	Ratio of operating surplus to value added by industrial group, 1989	37
Table II.12.	Public enterprises divested during 1994/95	39
Table II.13.	Share of manufactures in total imports, 1975-1993	43
Table II.14.	Composition of manufactured imports by major product category, 1975-1993, selected years	45
Table II.15.	Composition of manufactured exports by major product category, 1975-1993, selected years	46
Table II.16.	Net receipts of official development assistance from selected countries and international organizations, 1989-1993	47
CHAPTER III		
Table III.1.	Population and food availability, 1970-1995, selected years	55
Table III.2.	Consumption of wheat products and index of industrial production for grain milling industries, 1989-1994	58
Table III.3.	Exports of selected cash crops, 1982-1995	61
Table III.4.	Coffee production (in millions of 60 kg bags), 1990/91-1993/94	

		Page
Table III.5.	Tea production, 1994	63
Table III.6.	Fish catch by lake, 1994	66
Table III.7.	Main export markets of Uganda's fish products, 1994	67
Table III.8.	Uganda's forest types and coverage	68
Table III.9.	Production of round-wood timber and charcoal, 1984-1994	69
Table III.10.	Natural hardwood processing capacity, 1992	71
Table III.11.	Imports of selected wood products, 1993	71
Table III.12.	Volume of second hand clothing imports, 1992-1994	72
Table III.13.	Production of paper by type, 1993-1994	74
Table III.14.	Imports of pulp and paper, 1990-1993	74
Table III.15.	Projection of production of crude steel and semi-finished steel, 1991-1997	75
Table III.16.	Uganda's steel consumption, 1991-1997	77
Table III.17.	Import supply of steel, 1991-1994	77
Table III.18.	Uganda's cement imports, 1986-1993	80
Table III.19.	Production of manufactured leather and footwear products, 1989-1994	82
Table III.20.	Sales performances and percentage share for different types of leather, 1988-1993	83

FIGURES

CHAPTER I

Fig. I.A.	Growth of GDP and MVA, 1987-1994, selected years	6
Fig. I.B.	Share of manufacturing output in GDP, 1994	6
Fig. I.C.	Demand components of GDP, 1990 and 1994	7
Fig. I.D.	Consumer price change, 1991-1994	7
Fig. I.E.	Exports, imports and trade balance, 1990/91-1994/95	8
Fig. I.F.	Balance of payments, 1990/91-1994/95	8
Fig. I.G.	Exchange rate, 1991-1995	9
Fig. I.H.	External debt, 1991-1995	9

CHAPTER II

Fig. II.A.	Index of industrial production, 1988-1994, selected years	29
Fig. II.B.	Structure of MVA, 1989	32
Fig. II.C.	Share of manufacturing in foreign investment commitments, 1993	41
Fig. II.D.	Share of manufactures in total imports, 1993	44
Fig. II.E.	Share of processed food in manufactured exports, 1993	45

CHAPTER III

Fig. III.A.	Per capita availability of food, 1970 and 1995	56
Fig. III.B.	Sugar production, 1980, 1982 and 1995	60
Fig. III.C.	Coffee production, 1990/91-1993/94	62
Fig. III.D.	Total fish catch, by lake, 1994	66
Fig. III.E.	Production of industrial wood, 1984-1994	70
Fig. III.F.	Textile production, 1982 and 1995	73
Fig. III.G.	Production of crude and semi-finished steel, 1991 and 1997	76
Fig. III.H.	Cement production, 1982 and 1995	79

EXPLANATORY NOTES

References to dollars ($) are to United States dollars, unless otherwise stated.

Dates divided by a slash (1991/92) indicate a fiscal year or a crop year. Dates separated by a hyphen (1991-1992) indicate the full period, including the beginning and end years.

In Tables:
Totals may not add precisely because of rounding.
Two dots (..) indicate that data are not available or not separately reported.
A dash (-) indicates that the value is nil or negligible.

The following abbreviations are used in this publication:

ACP	Africa, Caribbean and Pacific
BOU	Bank of Uganda
CDO	Cotton Development Organization
COMESA	Common Market for Eastern and Southern African Countries
EIU	The Economist Intelligence Unit
ERP	Economic Recovery Programme
EU	European Union
GDP	gross domestic product
GNP	gross national product
ILO	International Labour Organization
IMF	International Monetary Fund
MFEP	Ministry of Finance and Economic Planning
MVA	manufacturing value added
NARO	National Agricultural Research Organization
NGOs	Non-governmental Organizations
NRM	National Resistance Movement
NTE	non-traditional exports
OAU	Organization of African Unity
OECD	Organization for Economic Cooperation and Development
PMB	Produce Marketing Board
PSDP	private sector development project
PTA	Preferential Trade Area for Eastern and Southern African States
RC	resistance council
SAF	Structural Adjustment Facility
SCOUL	Sugar Corporation of Uganda Ltd
UCDA	Uganda Coffee Development Authority
UDC	Uganda Development Corporation
UEPC	Uganda Export Promotion Council
UGML	Uganda Grain Millers Ltd
UIA	Uganda Investment Authority
UK	United Kingdom of Great Britain and Northern Ireland
UMA	Uganda Manufacturers' Association
UNBS	Uganda National Bureau of Standards
UNDP	United Nations Development Programme
URA	Uganda Revenue Authority
URC	Uganda Railways Corporation
UTGC	Uganda Tea Growers Corporation
WBP	wood based panels
WTO	World Trade Organization

PREFACE

This Industrial Development Review of Uganda has been prepared by the Industrial Sector Surveys Team of the Research and Studies Branch of UNIDO. The preparation of the Review is linked to the substantive activities of the Africa Bureau of UNIDO in general and the IDDA II-related programme in particular on redefining national priorities in the pursuit of rejuvenating promising subsectors of manufacturing. The Review is intended primarily to identify the industrial needs, priorities and opportunities and in particular to provide a ready source of information and analysis of the manufacturing sector in regard to the industrial structure and performance, emerging industrial investment and trade opportunities across manufacturing subsectors.

The Review is designed to accommodate the needs of a wide readership in the international industrial community associated with industry, finance, trade, investment, business, research and government. More specifically the analyses contained in the Review are intended to support technical assistance programming and investment promotion activities as well as to serve as a basis for informed discussions of the emerging opportunities for industrial expansion in Uganda.

The Review comprises three Chapters. Chapter I presents a diagnosis of the economy of Uganda, focusing on the overall context of industrialization and the industrial policy environment for investment. Chapter II analyses the structure and performance of the industrial sector with particular reference to output, employment, productivity, investment pattern, environmental issues, manufacturing trade and industrial location. Chapter III focuses on industrial branch profiles, highlighting the resource base, recent trends in terms of production, imports, exports, investment and trade opportunities for each disaggregated manufacturing segment, unveiling the avenues of emerging prospects.

SUMMARY

Until the mid-1980s, Uganda's post-independence history mirrored much of what has been witnessed across sub-Saharan Africa: solid initial economic performance ensued by a prolonged period of economic regression. After registering annual average growth in excess of 3.0 per cent in the first decade of independence, the economy equally contracted by an average of over 3.0 per cent annually over the period 1973-1980. This acute economic deterioration was the manifestation of, among others, political chaos, misrule, policy inadequacies and adverse external economic conditions.

Like virtually every facet of Ugandan life, the manufacturing sector suffered a dramatic decline in fortunes during this period. The mass expropriation of foreign assets unsurprisingly deterred potential investors, while the country's infrastructure, crucial for supporting the manufacturing base, also deteriorated. Indeed, the pursuit of regressive industrial policies only served to make a bad situation even worse. Protectionist policies for local industries, coupled with greater involvement of the public sector in economic activity, meant that economic and financial efficiency and discipline suffered. Crucially, by the end of the 1970s, the manufacturing sector was operating at less than 10 per cent of its installed capacity.

However, much was to change with the accession to power of the National Resistance Movement (NRM) in 1986. Against the backdrop of economic collapse, and faced with limited options, the NRM government launched a comprehensive programme of IMF-inspired and supported economic recovery, designed explicitly to redress the prevailing macroeconomic disequilibria. A major component of the programme has been to rebuild the country's physical infrastructure, rehabilitate the productive capacity of the economy, as well as strengthen key institutions to underpin prospects for sustained economic growth.

Overall, the coherent implementation of adjustment measures has produced significant macroeconomic gains and placed the economy on the path of sustained low-inflationary growth over the medium-term; real GDP growth averaged in excess of 6.0 per cent annually over the decade 1986-1996, while inflationary pressures have been contained, with annual inflation falling below 6.0 per cent in 1996. Unsurprisingly, greater stability and predictability have proven supportive to domestic manufacturing activity; the sector has grown dramatically from late-1980s onwards, registering annual average growth of almost 10 per cent over the period. The corollary of robust manufacturing growth has meant that the share of manufacturing output to aggregate economic output rose from a low of 4.8 per cent in 1986/87 to 7.2 per cent in 1994/95.

Within the manufacturing sector, however, there has been very little structural change in output over the past two decades. Manufacturing continues to be dominated by the processing of locally produced agricultural commodities - indeed, food processing, tobacco and beverages, and textiles and clothing together account for over 60 per cent of aggregate manufacturing output. With respect to quantitative trends in employment, the contribution of manufacturing to total employment remains small, with employment in manufacturing, and industry more broadly, dwarfed by the agricultural sector; various estimates place the figure at between 3-5 per cent. Crucially, most workers in industry can be found in small-scale activities. According to latest official figures, manufacturing enterprises with five or more workers together accounted for just about one-quarter of the total industrial workforce and less than 1.0 per cent of the labour force.

On the crucial issue of labour productivity, it must be noted that Uganda exhibits vastly different labour productivity across industries, whether this is measured in terms of value added per person employed, or by the ratio of compensation to value added; labour productivity in manufacturing ranges from under one-fifth the national average for special purpose machinery to over six, the national average in the case of tobacco products.

One of the most radical changes which has been observed in industry over the past two decades has to do with the institutional framework within which industry operates. With the advent of economic liberalization in 1987, the government has endeavoured to create an institutional

framework conducive to industrial development. To do that, it has had to tear down many of the organizational structures, and psychological barriers, that had acutely inhibited manufacturing development. The key activities have been the dismantling of government monopolies and the explicit encouragement of the private sector to participate in large-scale manufacturing activities. In addition to re-organizing the Ministry of Trade to get it to effectively play the crucial policy and facilitating role required of it, new institutional structures to promote industrial development have emerged in the private sector. The most notable is the establishment of the Uganda Manufacturers' Association, an umbrella organization which represents all of the country's manufacturing firms.

As may be expected, a decisive shift away from the dominance of public ownership has been a central theme of the post-1987 liberalization programme, although the fulfilment of this commitment has been somewhat slower than some would like. The process of privatizing public assets has been hamstrung by several factors, not least the fact that the government has been loathe to write off the public enterprises' bad debts, rather preferring to rehabilitate many of the companies to allow them to be sold as 'going concerns'. Nevertheless, the government's commitment to privatization is unchallengeable, as underscored by its avowed aim of divesting some 85 per cent of the country's parastatals by 1998; the government has categorically stated that public ownership of assets will be limited only to sectors that are of clear strategic importance, such as utilities and rail transportation. Where there has been quicker movement in the transition from public to private ownership has been with respect to properties expropriated in 1972.

While the rebound in manufacturing activity is intimately linked to the broader rejuvenation of the economy, one major factor has been the introduction of a more industry-friendly investment code, which provides a general set of investment incentives, guarantees profit repatriation and provides protection against expropriation of assets. The new Code has also led to the establishment of the Uganda Investment Authority (UIA) as a 'one-stop shop', designed to promote and facilitate investment, issue investment licenses and certificates of incentives, determine the terms and conditions imposed on investment, and make recommendations to the government on national policies towards investment. Indeed, since the early-1990s, international confidence in Uganda has been on a sharp ascendancy as potential investors have come to believe in the country's commitment to reform.

Endowed with fertile lands, and backed by favourable agro-climatic conditions, agriculture is the mainstay of the domestic economy, accounting for some two-thirds of GDP, over 90 per cent of exports and more than 80 per cent of total employment. The main staple crops are plantain, finger millet, sorghum, maize, beans and potatoes. Despite the abundant agricultural resources and the uptrend in out-turn in recent years, the country's high population growth has resulted in at best, a stagnation in per capita food availability.

Grain milling is a major economic activity in Uganda. There are over 250 business establishments engaged in grain milling and employing some 3.0 million people. Besides the numerous small-scale processors, there are three main large-scale plants engaged in wheat milling; the Uganda Grain Millers Ltd., formerly owned by the government has an installed capacity of 60,000 tonnes of grain per year, followed by the Asam Products plant located in the southwest which has an installed capacity of 10,980 tonnes per year. It must be noted that in spite of the sharply improved economic climate, the majority of these enterprises operate well below capacity.

Uganda's food market system has over the years been dominated by farmers' associations, private enterprises and individuals/households. Prior to the economic liberalization programme, however, the key players in agricultural marketing in the country were cooperative movement and the Produce Marketing Board. The cooperative movement was meant to provide an institution for effective food marketing with the participation of farmers, while the Produce Marketing Board was meant to provide substantial infrastructure for food collection, storage and distribution. But as part of the package of measures to liberalize food marketing operations in the country, the government lifted restriction and controls on trade and prices.

Some of the deliberate policy measures aimed at diversifying non-coffee exports include the complete liberalization of the foreign exchange regime, which removed the anti-export bias engendered by the overvalued exchange rate, and the abolition of export taxes. As a result of these initiatives, there has been a marked increase in private investment in the processing and marketing of food products.

While Uganda's agricultural resource base, which provides the key inputs for agro-processing, is abundant, many limitations have hampered agro-processing from realizing its abundant potential. Poor infrastructure, and a lack of complimentary capital have combined to force most existing processing plants operate far below capacity. Also significant is the general lack of proper storage facilities at all levels.

While staple foods account for almost three-quarters of total agricultural output, the country also produces a wide variety of food and non-food cash crops for export, the main ones being coffee, cotton and tea. Coffee is the country's largest foreign exchange earner, and its production is based entirely on small holder producers, who operate on an average plot of less than 1.0 hectare. Since 1991, as part of the broader structural economic adjustment, the coffee sector has witnessed comprehensive reforms, including the liberalization of domestic and export marketing, and the dismantling of the regressive stabilization tax and other market distortions. The government has also created the Uganda Coffee Development Authority as a promotional and regulatory body. Critically, the abolishing of the monopoly of the Uganda Coffee Marketing Board in exportation has attracted over 100 investors in coffee processing and export.

Yet, despite much improvements, the coffee sector remains constrained by an ineffectual regulatory framework, by unmitigated price fluctuations in the world market, and the preponderance of antiquated machinery in processing factories. Notwithstanding these constraints, the sector offers numerous opportunities for investment, key among which are the production of premium grade instant coffee, production of washed robusta coffee by rehabilitating central pulperies, development of nurseries and new plantations, roasting and packaging of coffee, and in the utilization of by-products such as black beans and husks.

Uganda's livestock production is an important subsector of agriculture, contributing about 20 per cent of total agricultural GDP. Livestock production is an integral part of the farming system, with crop production and animal raring being complimentary activities. During the 1970s, the country boasted over 500 commercial ranches and some 3,000 private commercial dairy farms, but as with other sectors of the domestic economy, the subsector plummeted sharply during the period of economic and political turmoil. After a period of importation of diary products, the rehabilitation of the Dairy Corporation Plant and milk collection centres, as well as, the entry of new players milk processing and marketing, has virtually made the country self-sufficient in dairy products. The government has also implemented an extensive programme to improve veterinary and animal health services to small livestock farmers. Other interventions include the introduction of heifers scheme for rural women and improved pasture development programmes. Presently, the key constraint is the problem of low productivity and the lack of adequate processing facilities. In terms of prospects, the large domestic and subregional market offers abundant prospects for milk production, marketing and processing of diary products. Indeed, one major opportunity for investors is the planned privatization of the mammoth Dairy Corporation.

Uganda's rich endowment of freshwater resources makes fishing an important economic activity. Some 15,000 people are employed in fish processing, marketing and transportation, while an additional 150,000 people are employed in other fish-related activities. Yet, despite the abundance of fisheries resources, fish production has recently shown a downward trend due to the pervasive growth of water hyacinth in Lake Victoria, Lake Kaoga and the River Nile, which are the major sources of fish. Besides the problem of water hyacinth, unreliable power supply, poor processing facilities and weather-induced high spoilage rate are undermining output. Most notably, if the problem of unreliable power is not remedied, this risk may substantially undermine the domestic fish industry's competitiveness and hinder exportation. Amid still abundant resources, the key opportunity for investment lies in the area of fish processing for exportation.

Endowed with a rich, varied, forest ecosystem and vegetation, the country's potential in forestry products is manifest in the fact that it possesses a total forest cover in excess of 6.0 million hectares. Generally, however, the productive resource base for wood and wood products is largely the natural forests and forest plantations, which represent 7.0 per cent of the total geographical area. Crucially, other than two areas, there are no up-to-date inventories for natural forest resources in the country; the programme for conducting inventories in other natural forest resources commenced in March 1995 and will last until 1998. Although the domestic output of forestry products, especially saw timber is growing, no wood based panels (WBP) are made in Uganda, leading to a reliance on imports of WBPs from Kenya.

The development of Uganda's forestry faces a number of constraints, which hinder production and investment. The major constraints include infestation of pests like Aphids which attack softwood plantations, inefficient and wasteful charcoal production techniques and obsolete machinery. The sector is also constrained by a lack of effective regulatory machinery to control illegal processors and ensure quality production, and a lack of systematic data on fuel wood and other wood consumption. Perhaps the most acute constraint is the lack of working capital and insufficient market information on sawn timber and other products. Despite these constraints, the rebound in building and construction activities in the country offers numerous prospects - the production of poles, fence posts, clipboard and blockboards. In addition to the traditional wood products common to the local market, the sector offers good investment opportunities in the production of particle board products, laminated and cement bonded board products.

Once a leading exporter of textiles in the East African region, Uganda's textile industry has been much decimated by a number of factors. In fact, unlike other sectors of the economy, the domestic textile industry has continued its downward trend in spite of the general economic renaissance witnessed over the past decade. The key problems afflicting the industry are the low levels of efficiency and capacity under-utilization, which have combined to dramatically erode the competitiveness of the industry. A critical review of all the eight major mills shows a poor state of machinery and equipment; the result of these adverse factors is that the country has become dependent on imported second hand clothes to fulfill the prevailing gap in internal demand. Other factors which have hampered the development of the textile industry include the absence of quality control measures needed to bring domestic output in line with demands of export markets, the limited availability of the primarily raw material - namely cotton, unreliability and high cost of power, and the limited access to finance and credit.

In spite of significant quantities of known iron deposits in the Kabale and Kisoro districts, Uganda has yet to develop any worthwhile steel industry. Part of the problem is the huge capital investment required to bring any integrated iron/steel project on stream. Discussions have been initiated between the government and PTA to explore opportunities for exploiting the country's iron ore deposits to meet the demand for iron and steel in the PTA region. Currently, the major operational plant is the Steel Rolling Mill facility at Jinja, whose products are mainly merchant bar and wire rod structural steel, and ore alloyed cold for work tool steel. Besides this, there are three medium-sized plants, comprising of Sembule Steel Mills 50,000 tonnes per annum operations in Kampala, SRM/Casements of the ALAM Group rolling mill plant, and General Machinery Company Limited's vehicle assembly plant and agricultural implements outfit.

Akin to other sectors, the iron and steel subsector is bedeviled by a plethora of constraints, including the lack of skilled manpower and low productivity of labour, poor management capabilities, and difficulties in sourcing financial resources. Technical constraints include the prevalence of obsolete production equipment, poor quality control, a lack of research and development activities, inadequate design facilities, and a lack of effective technology transfer mechanisms. Crucially, however, the preponderance of these constraints belies immense opportunities in the subsector. There are opportunities for new entrants in the manufacture of machinery and transport equipment, manufacture of special purpose machinery such as domestic appliances, bodies for motor vehicles, and trailers and semi-trailers.

I. THE MACROECONOMIC AND INDUSTRIAL POLICY ENVIRONMENT

A. RECENT ECONOMIC TRENDS

Economic trends pre-1986

Uganda's economic history, post-independence, mirrors much of what has been witnessed across sub-Saharan Africa: robust initial performance followed by a prolonged period of economic deterioration engendered by political chaos, misrule, policy inadequacies and unfavourable external economic conditions. Before the accession to power of Idi Amin in 1971, Uganda had one of most prosperous economies in sub-Saharan Africa. Backed by prudent macroeconomic management and against a backdrop of the country's enviable agricultural base, the economy expanded at an impressive 6 per cent annual rate between 1962 and 1971; on a per capita basis, this decade was characterized by annual average growth of over 3.0 per cent. Concurrently, the external sector performance was healthy, a good degree of price stability was achieved, and the country made significant strides in developing its industrial base.

But the country's favourable economic prospects were decisively shattered with Idi Amin's rise to power. The political chaos that ensued, and crucially, the absence of coherent economic policies led to economic regression. What economic policy existed, amid the general anarchy and rule by the gun, became inward-looking and focused on placing economic activity under state control. Perhaps most damaging for the economy was the government's misguided decision to expropriate assets of foreign companies and expel the Asian community, who represented the linchpin of the commercial and industrial sectors.

Critically, the inevitable economic dislocation which accompanied the hasty nationalization - in particular the breakdown in the transport and marketing systems - paralysed the key agricultural sector, as significant numbers of farmers de-emphasized cash crop production in favour of subsistence agriculture. Within industry, the activity which survived this period of misrule tended to be within the public sector, and output was largely protected from international competition by a plethora of tariff and non-tariff barriers. The ensuing lack of industrial efficiency, combined with acute macroeconomic imprudence was particularly damaging for the export sector; by the late-1970s, the country became perilously dependent on coffee for some 98 per cent of its export revenue, while aggregate coffee export volumes amounted to less than 50 per cent of those a decade earlier.

The extent of economic deterioration witnessed in the decade of the 1970s is highlighted in the table below. Following average annual growth of 3.6 per cent registered during 1965-73, real GDP contracted at an average annual rate of almost 3.0 per over the 1973-80 period; and against a backdrop of high population growth, GNP per capita fell by over 6.2 per cent annually over the period 1973-80 (see Table I.1). During this dire period, in sectoral terms, the sharpest decline in economic activity was unsurprisingly witnessed in the industrial sector, as industrial output plummeted at an average annual rate of almost 12.0 per cent. Between 1973 and 1980, both gross fixed capital formation and exports fell by just under 10 per cent annually, while reflecting severe macroeconomic imbalances and in particular, undermined by rapid expansion in money supply, average annual inflation measured a devastating 45.4 per cent.

Table I.1. Key macroeconomic indicators, 1965-86
(Average annual percentage change)

	1965-73	1973-80	1980-86
GNP per capita	0.7	-6.2	-2.4
GDP	3.6	-2.7	0.4
Agriculture	3.6	-2.3	-0.5
Industry	3.0	-11.9	1.4
Services	3.8	-1.1	3.0
Private consumption	4.0	-3.1	..
Investment	2.1	-9.8	..
Inflation	5.6	45.4	95.2
Exports	3.0	-9.5	2.7
Imports	-4.1	-2.9	3.0

Source: World Bank.

Following Milton Obote's return to power as president in 1980, the Government embarked on an IMF-inspired stabilization programme, which saw the re-introduction of sound macroeconomic management, a considerable revival in financial assistance from Western donors; and judicious policy implementation culminated in a debt rescheduling agreement with the Paris Club of official creditors. The corollary of initial macroeconomic prudence by the Obote II regime was a rejuvenation of economic growth.

But inauspiciously, the intensification in civil conflict from mid-1984 onwards undermined the stabilization efforts and ultimately forced the Government to totally abandon all adjustment measures. A sharp increase in military expenditures to fight off the insurgency by the National Resistance Movement (NRM), which led to a seven-fold increase in the budget deficit between 1983/84 and 1985/86, proved particularly damaging for the economy, as was the pursuit of other regressive policies, including the adoption of a pegged exchange rate regime and the attendant overvaluation of the domestic currency. By late-1985, the economy had virtually collapsed, inflation had reached triple digit and the impressive start made in the early 1980s proved to be a 'false dawn'.

Economic trends post-1986

It is undisputed that when the NRM came to power in 1986, the Movement inherited an economy ruined by over 15 years of brutal authoritarianism, civil strife and gross economic mismanagement. The potent dose of political turmoil and economic incompetence had led to severe macroeconomic imbalances, as manifested by the stratospheric inflation, intense balance of payment difficulties, and the massive foreign debt burden which afflicted the country. Undermined by the collapse in aggregate output, export volumes had fallen precipitously, the consequences of which were made worse by a sharp deterioration in the country's terms of trade. Fuelled by the prolonged turmoil, per capita income had been reduced by almost half to just over $250 placing Uganda in the league of poorest nations in the world. With respect to the physical infrastructure, those which managed to survive the tumultuous 1970s were obliterated by the civil war. Moreover, against a backdrop of austere economic conditions, a ruined social infrastructure and precarious security conditions, most experienced and skilled personnel had fled the country, leading to a shortage of critical manpower. But perhaps the most telling indicator of the extent of economic devastation was to be found in the industrial sector. By early 1986 industry accounted for less than 5.0 per cent of GDP.

Faced with perhaps no other option, in 1987, the new NRM Government launched a comprehensive programme of economic recovery, designed explicitly to redress the prevailing macroeconomic disequilibria under the guidance of the IMF and with the support of the international donor community: the key features of the stabilization programme included control of money supply growth, a phased withdrawal of government subsidies, devaluation of the domestic currency, the dismantling of the plethora of price controls and the realignment of relative prices in favour of productive activities and exports. A major component of the programme has been to rebuild the country's physical infrastructure, rehabilitate the productive capacity of the economy, as well as strengthen key economic institutions to underpin prospects for sustained economic growth. Overall, the coherent implementation of adjustment measures has produced significant macroeconomic gains and placed the economy on the path of sustained low-inflationary growth over the medium-term.

Indeed, an analysis of trends in key performance indicators shows that the degree of economic recovery achieved since 1987 has been phenomenal; a development which attests to the resilience of the Ugandan economy. Backed by generally favourable weather conditions, the large infusion of donor capital and an improved incentive framework, expansion in the domestic economy has been sustained at an impressive rate for almost a decade. Real GDP growth has averaged in excess of 6.0 per cent annually since 1987 (see Table I.2); and in fact, between 1992 and 1995, average annual growth registered an impressive 8.0 per cent.

Table I.2. Annual real GDP growth rates, 1987-1994, selected years
(Per cent change over previous year)

	1987	1989	1991	1993	1994
Monetary economy	8.2	6.9	7.5	7.8	11.6
Agriculture	4.8	5.9	5.1	6.6	7.5
Mining & quarrying	-17.1	15.4	31.1	12.2	-5.1
Manufacturing	9.1	11.7	11.9	12.5	17.9
Electricity & water	6.7	2.3	11.4	1.7	15.9
Construction	48.2	6.5	6.4	12.4	15.7
Hotels & restaurants	18.9	13.1	17.5	16.4	28.4
Transport & communications	8.8	5.1	7.7	8.4	12.8
Community services	3.1	7.0	8.8	6.7	6.9
Non-monetary economy	4.0	5.4	0.4	3.2	4.4
GDP at factor cost	6.6	6.4	5.2	6.4	9.4

Source: Ministry of Finance and Economic Planning.

Perhaps more significant is the fact growth has been broad-based. While growth in the agricultural sector has overall been strong and steady, the out-turn of much of the non-agricultural sector has been even more robust. In particular, a major dynamic source of growth has been derived from the manufacturing, construction and hotels and restaurants sectors, all of which have succeeded in recording double digit growth year-on-year since 1987. Preliminary estimates suggest growth strengthened to some 11.0 per cent in 1995 triggered largely by the impressive performance of the agricultural and manufacturing sectors. Yet while the main driver for strong growth has been prudent macroeconomic management, it must be noted that the economy's contemporary growth prospects were, without doubt, bolstered by robust coffee prices during 1994 and 1995; a factor that is not seen to be guaranteed in future.

Reflecting marked improvements in both fiscal and monetary discipline, the domestic economy has achieved a great deal of price stability in the 1990s. With the exception of a major slippage in 1992, when annual inflation accelerated to an astronomic 55.0 per cent, price pressures have been

steadily reined-in. While annual inflation more than doubled to 10 per cent in 1994 (see Table I.3), the rate fell back to below 9.0 per cent in 1995. And despite the recent introduction of a 17 per cent VAT, year-on-year inflation was a low 5.3 per cent in June 1996; and the trend in underlying inflation suggests price pressures would remain subdued over the short-term. In fact, the success in achieving price stability is better illustrated when it is considered that annual inflation amounted to almost 240 per cent during 1987/88.

Table I.3. Price developments, 1991-1994
(Annual percentage change)

	1991	1992	1993	1994
All items	27.7	54.5	5.1	10.0
Food crops	22.4	79.2	-9.0	16.7
Goods	27.9	41.4	8.7	4.5
Services	35.6	51.1	20.7	14.2

Source: Ministry of Finance and Economic Planning.

Several factors underpin the favourable price environment, chief among which are a sharp deceleration in monetary expansion and more secure food supplies. It must be noted that food accounts for over half of the composite inflation index, with the result that fluctuations in food supplies, induced largely by weather patterns, have a significant impact on overall price developments. Much of the deceleration in aggregate price level witnessed in 1993, for instance, was derived from the deflation in food prices in that year as output rebounded from the drought-induced shortfalls in the preceding year. And in 1994/95, underlying price pressures were also dampened by the introduction of the coffee tax, which succeeded in sterilising the potential adverse impact on prices emanating from excess foreign exchange inflows into the domestic economy.

With the public sector on the edge of an abyss, the fiscal challenge which confronted the NRM on its accession to power was indeed monumental. Crucially, at that time, the dearth of critical expertise, the lack of fiscal control and monitoring mechanisms and the absence of basic information made fiscal planning and budgeting an onerous task. Against such a backdrop, and amid the precarious security conditions which existed then, it came as little surprise that the Government failed to bring public finances under control over the 1986/88 period. Backed by greater fiscal prudence, the overall budgetary position improved significantly during 1989-91; however, undermined by increased infrastructural spending imperative to underpin on-going development efforts, the fiscal out-turn slipped once more in the 1991/92 fiscal year (see Table I.4). In relative terms, the fiscal deficit including grants virtually tripled from 3.3 per cent of GDP in 1990/91 to 9.7 per cent of GDP in 1991/92; excluding grants, the deficit in 1991/92 amounted to 14.5 per cent of GDP compared to 7.2 per cent in the preceding fiscal year.

The fiscal out-turn in 1992/93 improved sharply to just over 3.0 per cent of GDP, on the back of a large inflow of external funding which amounted to some 8.0 per cent of GDP. Indeed such is the trend towards improved fiscal discipline that even with a downtrend in external grants in the ensuing periods, the deficit has been kept under 5.0 per cent of GDP. In fiscal year 1994/95, the budgetary deficit amounted to a creditable 2.4 per cent of GDP, although this was assisted by the positive impact of significant debt forgiveness by the Paris Club of creditors, and revenue boost derived not only from the coffee boom but also from the coffee stabilization tax.

Table I.4. Profile of fiscal developments, 1990/91-1994/95
(Ushs billion)

	1990/91	1991/92	1992/93	1993/94	1994/95
Revenue & grants	207.0	280.0	604.8	677.2	752.5
Total revenue	136.8	185.4	291.1	394.7	25.5
Tax revenue	128.2	179.2	284.3	368.3	487.3
Non-tax revenue	8.6	6.1	6.8	26.4	38.2
Grants	70.2	94.6	313.7	282.5	226.9
Expenditure & net lending	267.3	543.6	718.3	851.4	866.5
Recurrent expenditure	128.7	285.1	323.4	416.8	486.5
Development expenditure	134.1	245.0	393.7	431.9	368.8
Net lending & investment	4.5	8.5	1.2	2.8	11.7
Overall balance	-60.3	-263.6	-113.5	-174.3	-114.1
Excluding grants	-130.5	-358.2	-427.3	-456.7	-341.0
Overall balance (% of GDP)	-3.3	-9.7	-3.1	-4.3	-2.4
Excl. grants (% of GDP)	-7.2	-14.5	-11.8	-11.3	-7.0

Source: Ministry of Finance and Economic Planning.

Perhaps nothing better demonstrates Uganda's success in economic stabilization and the improved confidence in the domestic economy as the performance of the external sector. Underpinned largely by robust unrequited transfers, the current account has improved steadily in the 1990s, with the result that in the 1994/95 fiscal year, the country achieved a near balance on the current account. Also significant in fuelling the marked improvement in the external sector has been the country's improving terms of trade and the liberalization of both the trade and foreign exchange regimes.

On the merchandise account, exports grew sharply between 1992 and 1995 on the back of higher international coffee prices; on a year-on-year basis, aggregate exports more than doubled to reach almost $540 million in 1994/95 (see Table I.5). It must be noted, however, that on the positive side the sharp growth in coffee export receipts has not been due mainly to the positive price effect, as coffee volumes have also increased sharply in recent years. And, moreover, buoyed by the improved operating environment, non-coffee exports have also been on a rising trend, with aggregate non-coffee export receipts almost tripling from $50 million in 1991/92 to just under $150 million in 1994/95.

Table I.5. Balance of payments, 1990/91-1994/95
($ million)

	1990/91	1991/92	1992/93	1993/94	1994/95 a/
Exports (f.o.b)	175.4	172.1	169.3	253.9	539.8
Imports (c.i.f)	-545.0	-450.6	-530.5	-717.7	-981.0
Trade balance	**-369.6**	**-278.6**	**-361.2**	**-463.8**	**-444.3**
Services & income (net)	-160.2	-195.0	-140.8	-147.6	-183.8
Services	-58.2	-87.0	-87.4	-96.4	-140.3
Income	-102.0	-108.0	-53.4	-51.1	-43.4
Unrequited transfers	342.4	342.0	368.0	522.5	619.7
Current account	**-187.4**	**-131.6**	**-134.1**	**-88.8**	**-8.0**
Capital account	79.9	9.1	142.6	195.2	145.7
Overall balance	**-107.5**	**-122.5**	**8.6**	**106.4**	**137.7**

Source: Ministry of Finance and Economic Planning.
a/ Preliminary estimates.

MACROECONOMIC TRENDS

Fig. I.A. Growth of GDP and MVA, 1987-1994, selected years
(Percentage)

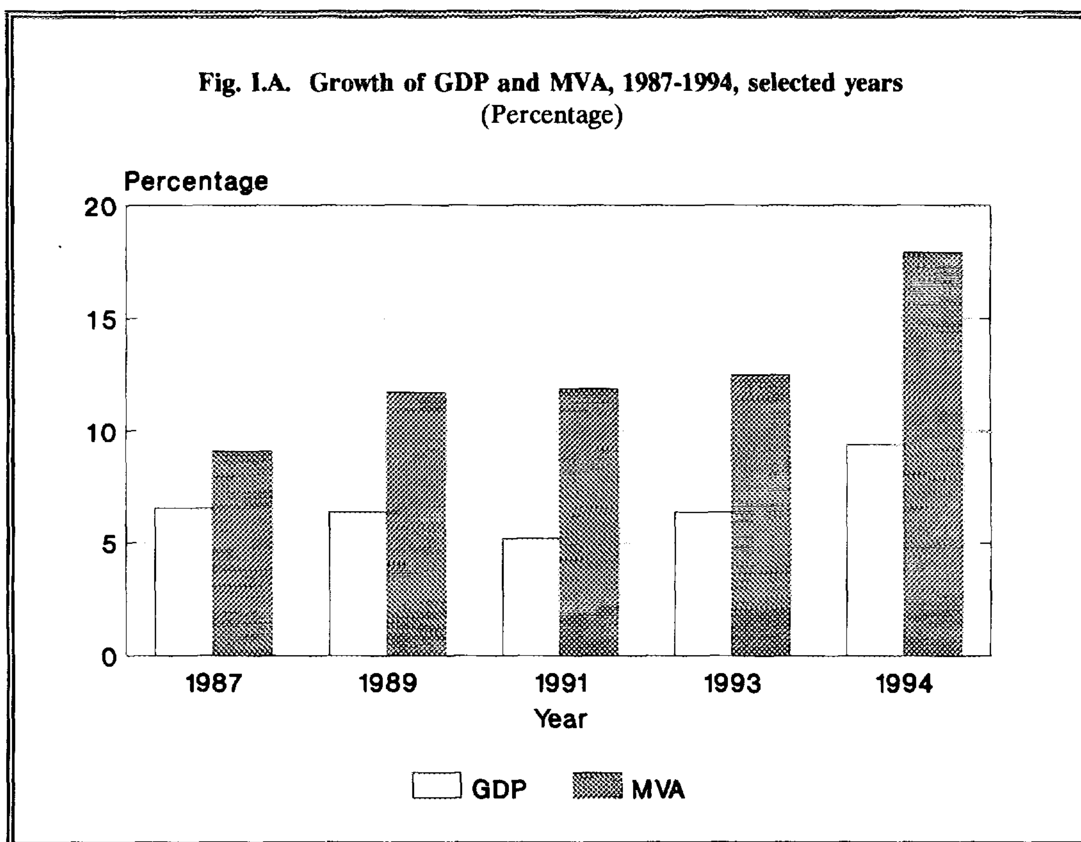
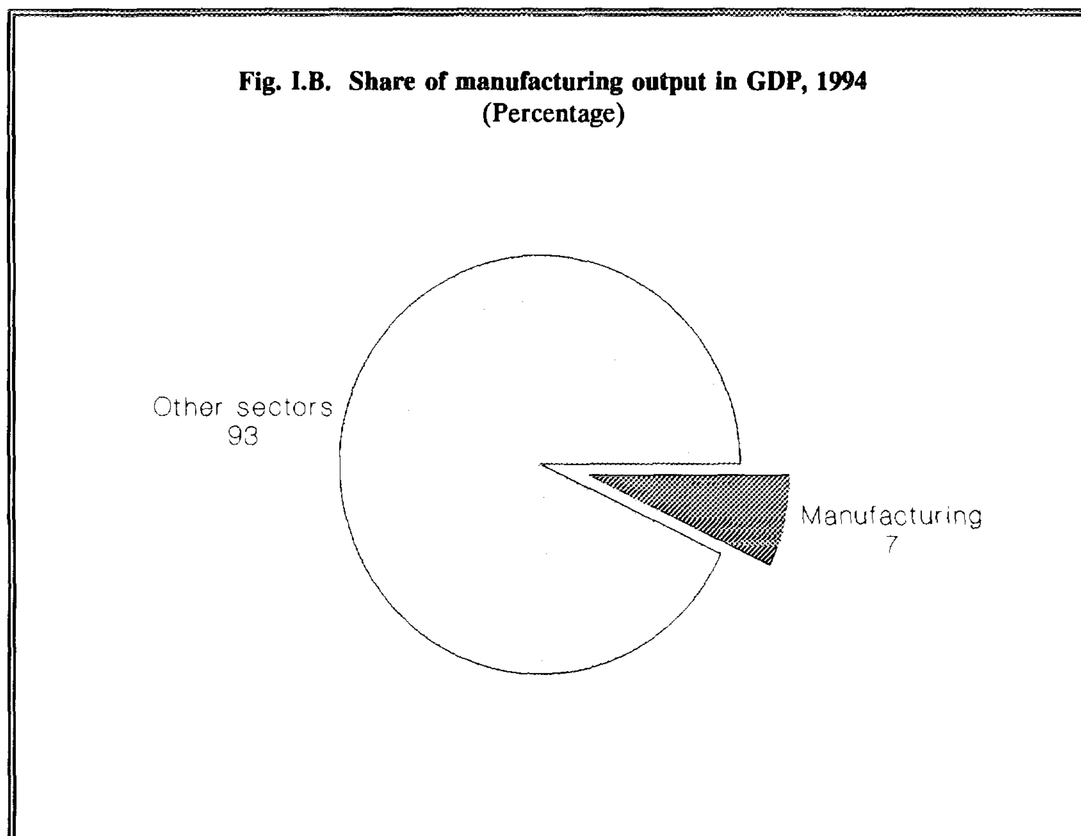


Fig. I.B. Share of manufacturing output in GDP, 1994
(Percentage)



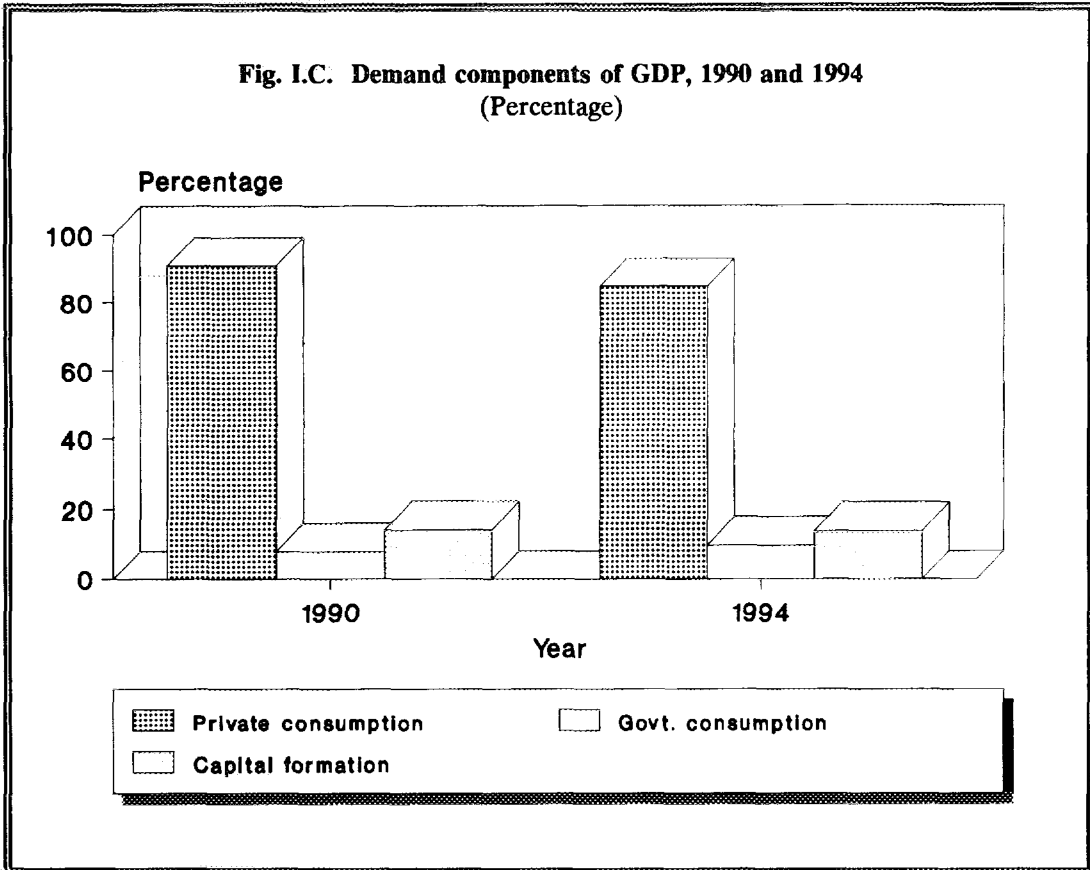


Fig. I.C. Demand components of GDP, 1990 and 1994
(Percentage)

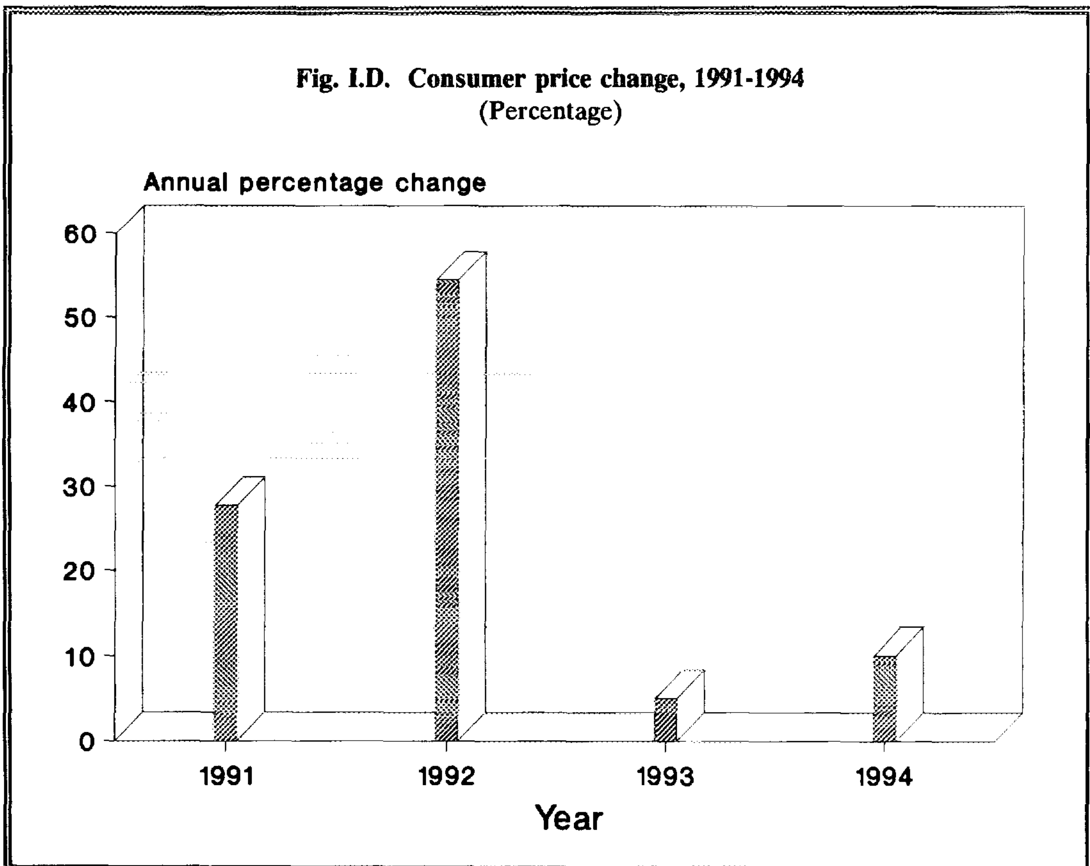


Fig. I.D. Consumer price change, 1991-1994
(Percentage)

Fig. I.E. Exports, imports and trade balance, 1990/91-1994/95
($ million)

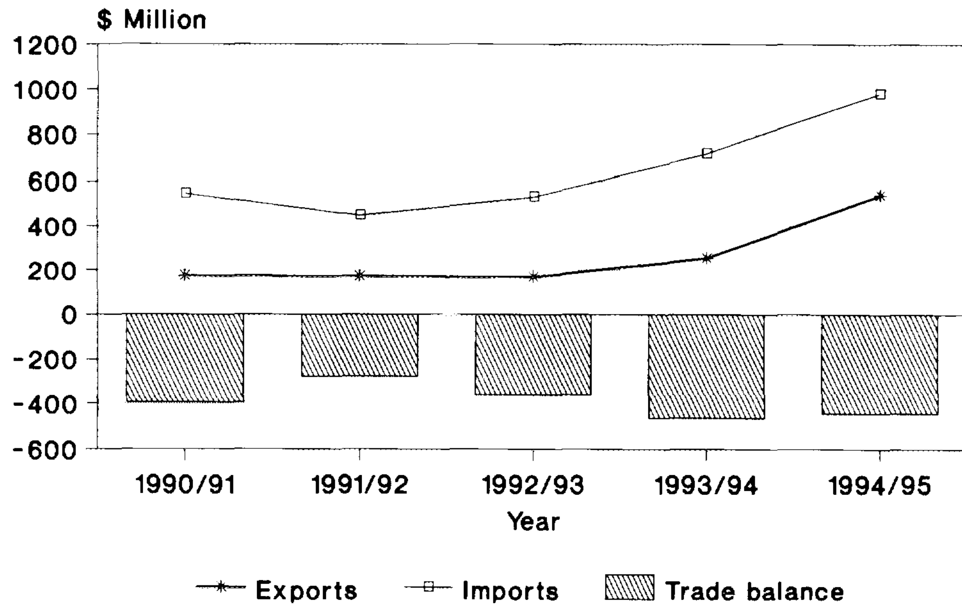
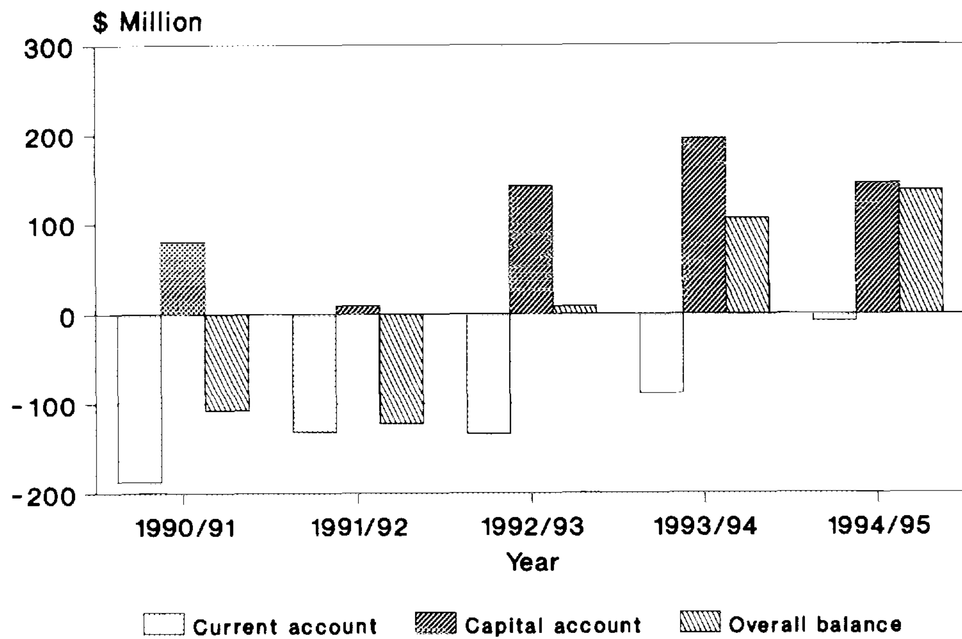


Fig. I.F. Balance of payments, 1990/91-1994/95
($ million)



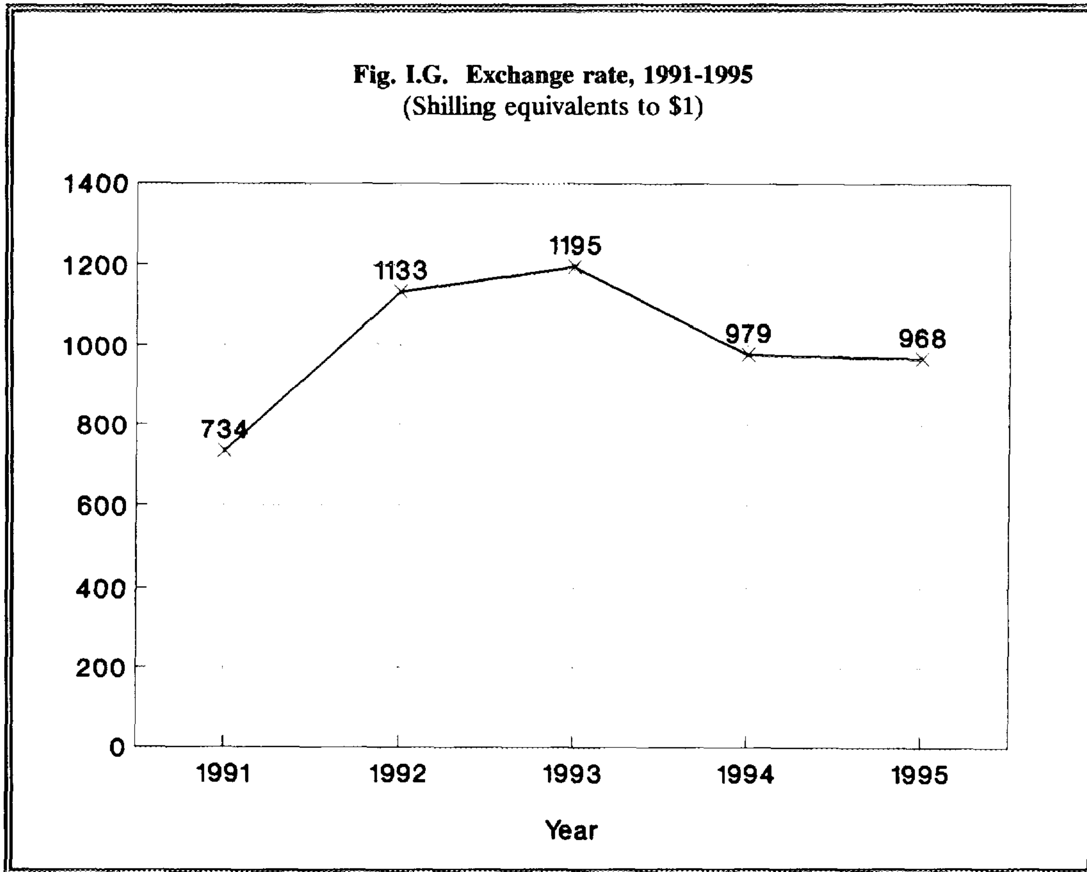


Fig. I.G. Exchange rate, 1991-1995
(Shilling equivalents to $1)

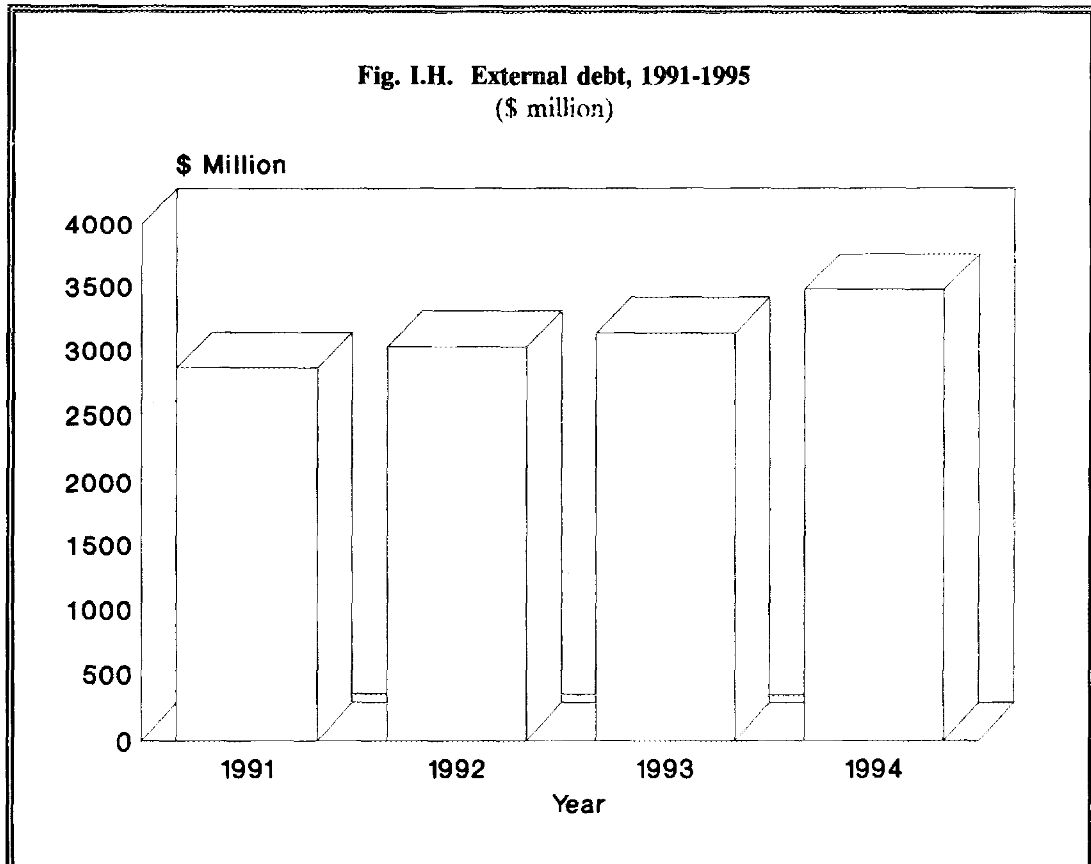


Fig. I.H. External debt, 1991-1995
($ million)

On the downside, however, the robust growth in export revenues witnessed in recent years has been largely offset by an equally robust increase in imports; the consequence has been a large and rising trade deficit amounting to some $450 million and $460 million annually in 1993/94 and 1994/95, respectively. But, in the short-term, the large trade imbalance has not been debilitating, as they have been counterpoised by large inflows of unrequited transfers; the net result was that the current account deficit in 1993/94 which was equivalent to a favourable 2.4 per cent of GDP fell even further, to below 1.0 per cent of GDP in ensuing fiscal year.

B. ECONOMIC STRUCTURE

The physical environment

Located on the eastern African plateau and some 800 kilometres from the Indian Ocean, Uganda is a landlocked country bordered by Sudan to the north, Zaire to the west, Rwanda and Tanzania to the south and Kenya to the east. Topographically, much of the country consists of a plateau, with the entire country lying some 900 metres above sea level. The total land area is approximately 241,140 square kilometres, of which some 44,000 square kilometres is inland water. Uganda shares a number of large fresh water lakes with neighbouring countries, including Lake Victoria and Lakes Edward and Albert; together with most of the inland rivers, these lakes form the basin of the River Nile.

Although the country lies astride the equator, it has what has been dubbed a 'modified tropical' climate as a result of its central location on the East African Plateau; indeed, Uganda has three sub-climatic zones differentiated mainly by altitude and rainfall. Notably, it is these micro-climates which give rise to the extreme diversity in the country's vegetation: these comprise a mixture of savannah woodland, tropical rain forests, high altitude vegetation and a limited stretch of semi-desert.

There are two rainy seasons, covering the months March-May and October-November, with the wettest month being April. Rainfall is greatest bordering Lake Victoria and on the mountains, where small areas have over 2,000 millimetres per year. The high ground of the west, Lake Victoria and the eastern and north-central interior all have over 1,250 millimetres per year. Only the north-east and parts of the south (Ankole) experience less than 750 millimetres of rainfall per annum.

The demographic base

According to Uganda's Ministry of Finance and Economic Planning figures, Uganda has an estimated population of 19.5 million, growing at an annual average rate of 2.8 per cent. Crucially, high birth rate combined with a low life expectancy and the country's brutal history have meant that some 48 per cent of the population is aged below 15 years. And demographic statistics show that the population is almost equally split by sex, with the female population marginally exceeding that of males; estimates for 1995 put the female population at 9.7 million against a male population of 9.5 million, and this trend is projected to continue well into the next century.

A striking feature of Uganda's demographic profile is the uneven distribution of the population across space (see Table I.6). With the population concentrated in southern Uganda, while the north is sparsely populated, there exists a marked variation in population density across the country. According to the country's 1991 Census, while the central and eastern regions recorded a population density far in excess of 100 people per square kilometre, the comparable figure for the northern region was only 38.

Table I.6. Profile of population by region, 1980 and 1991

	1980		1991	
Region	Population (Thousands)	Density (Per sq.km)	Population (Thousands)	Density (Per sq.km)
Central	3,582.6	97	4,843.6	131
Eastern	3,237.4	116	4,128.6	148
Northern	2,424.2	30	3,151.9	38
Western	3,392.1	68	4,547.9	92
Total	12,636.3	64	16,672.0	85

Source: Statistics Department, Ministry of Finance and Economic Planning.

Compounding the difficulties engendered by the dualism in population density, with respect to the provision of social services, is the sharp divide between the urban and rural areas. Akin to other African countries, Uganda's population is largely rural, although the sharp rates of rural-urban migration means that an increasing proportion of the population is becoming urbanized. Such is the degree of rural-urban migration that, official sources project the urban population as a proportion of total population to virtually double from under 12 per cent in 1992 to over 22 per cent in the year 2010 (see Table I.7). In absolute terms, this implies a tripling in the urban population over the period, whereas the rural population is forecast to expand by just 40 per cent.

Table I.7. Population breakdown and projections by rural and urban areas, 1992-2015, selected years
(Thousands)

	1992	1995	2000	2010	2015
Rural	15,421	16,682	18,646	22,037	23,869
Urban	2,101	2,580	3,565	6,328	8,648
Total	17,522	19,263	22,210	28,366	32,517
Urban (% of total)	11.99	13.40	16.05	22.31	26.60

Source: Statistics Department, Ministry of Finance and Economic Planning.

The three major linguistic groups are the Bantu, the Nilotic and the Nilo-Hamitic. The majority of the population are Christians, although a significant Muslim population is present in the country.

Agriculture

Agriculture is the mainstay of the domestic economy, contributing just over 50 per cent of GDP and accounting for some 90 per cent of total merchandise export receipts. In fact, the importance of agriculture to the domestic economy becomes even more manifest, where the informal sector is considered; according to official estimates, agriculture accounts for a monumental 90 per cent of informal sector activity, as against a contribution of about a third of formal sector GDP. While cash crop production is a significant activity, domestic food crop production dominate the

agricultural sector. The principal crops produced include cereals, root crops, pulses and oil seeds, with the main ones being bananas, maize, beans, cassava, groundnuts and sim-sim (see Table I.8).

An analysis of the structure of agriculture shows the sector is dominated by small-scale farming, with the estimated 2.1 million in the sector cultivating an average of about 2.5 hectares. While the fertility of the soils and the favourable climatic conditions have supported bountiful agricultural out-turn, the small size of holding has to some degree constrained the adoption of improved commercial techniques.

In contrast to the crops sub-sector, the livestock sub-sector - which accounts for some 7-8 per cent of GDP - is comparatively underdeveloped. The consequence is that the country is far from achieving self-sufficiency in livestock production, with aggregate domestic livestock production accounting for less than half of domestic demand. But with Uganda's rich endowment of fresh water resources, the country's fisheries potential is immense. While a lack of investment and appropriate resource management has hampered fisheries development, the country has more than 10 fish processing and export plants. The major fish species are Nile Perch and Tilapia, while cat fish, tiger fish, small pelagic sardine, mud fish and haplochrommes are also present in abundance.

Table I.8. Production of selected food crops, 1980-1995, selected years
(Thousand tonnes)

	1980	1985	1990	1995[a/]
Cereals	1,078	1,171	1,580	2,080
Maize	286	354	602	950
Finger millet	459	480	560	643
Root crops	3,438	4,532	5,337	5,246
Cassava	2,072	2,700	3,420	2,625
Sweet potatoes	1,200	1,664	1,693	2,235
Pulses	182	338	498	507
Beans	133	267	396	387
Oil seeds	93	134	257	292
Groundnut	70	93	158	143
Sim-sim	20	33	62	71
Banana	5,699	6,468	7,842	9,598

Source: Ministry of Agriculture.

a/ Preliminary estimates.

As may be expected, undermined by political and military strife, the agricultural sector encountered major disruptions to output during the 1970s and through to the mid-1980s. While coffee output proved somewhat resilient to these domestic shocks, the period saw a virtual collapse in the production of other cash crops. Since 1991, however, agricultural performance has improved sharply, in part due to favourable climatic conditions, but more importantly, the rebound reflects the country's stellar macroeconomic achievements since the late-1980s. Crucial to the realization of robust agricultural out-turns has been the dismantling of restrictive policies, and the positive supply response which has accompanied the liberalization of prices and the internal and external marketing of key commodities. Over the foreseeable future, coffee's export hegemony is expected to be maintained - Uganda is second largest coffee producer in Africa and the fifth in the world - underpinned by continuing efficiency gains engendered by the sub-sector's on-going liberalization. In particular, the dismantling of state marketing monopolies and freeing of export prices should provide an impetus for greater domestic and foreign investment (especially downstream processing) in the sub-sector over the short- medium-term.

Yet, it is the emergence of buoyant prospects for non-traditional agricultural exports which is generating most enthusiasm. Non-traditional agricultural products, for which the country's climatic conditions provide a significant comparative advantage include various vegetables, beans, fish and fish product, fruits, herbs, aromatics, essential oils, cut flowers and ornamental plants. According to official figures, non-traditional agricultural exports grew from a paltry $1.4 million in 1988, equivalent to under 1.0 per cent of total agricultural exports, to over $50 million in 1993, reaching an estimated $96 million in 1995 (see Table I.9); the share of non traditional agricultural exports to aggregate agricultural exports was reached a record 30 per cent, although this share fell back to below 20 per cent in 1994 following robust international coffee prices. According to World Bank projections, the value of non traditional agricultural exports should reach almost $170 million by 1998.

Table I.9. Agricultural exports, 1990-1995
($ million)

	1991	1992	1993	1994	1995[a/]
Coffee	117.6	95.4	106.8	342.7	..
Tea	6.8	7.7	11.1	11.8	11.5
Cotton	11.7	8.2	5.5	3.6	8.3
Tobacco	4.5	4.3	7.0	8.3	9.2
Non-traditional agricultural export	31.1	28.2	56.0	70.5	95.8

Sources: Uganda Coffee Authority; Uganda Tea Authority; Uganda Revenue Authority.

a/ Preliminary estimate.

Overall, the agricultural sector being the backbone of the economy, will continue to receive priority attention and command the dominant share of financial resource allocation. Over the medium-term, little change is expected in the main thrust of agricultural policy, which will continue to emphasize food security, increased diversification in export crops to reduce the precarious dependence on coffee, measures to facilitate the adoption of high yielding crop varieties and appropriate technology and a further retrenchment of the state from agricultural marketing.

Mining and energy

Mining

While mining contributed some 5.0 per cent of GDP in the early 1970s, the sector's contribution to aggregate domestic activity is now largely negligible; in 1994, mining and quarrying accounted for less than 0.5 per cent of GDP (see Table I.10). Most of the domestic mining operations in the 1970s, which included those in gold, tin, copper, tantalite and limestone became casualties of the turmoil that afflicted the country during that period. But underpinned by known yet untapped quantities of gold in several parts of the country, concentrates of high grade tin, tungsten, beryllium and salt (estimates suggest some 10 million tonnes of mixed saline salt at Katwe Crate lake alone), there presently exist considerable foreign interest in the sector, especially from South African companies. Other known mining resources include kaolin, diatomite, marble, feldspar, gypsum, iron ore, chromate and tantalite.

Table I.10. Trends in mining and quarrying, 1988-1994

	1988	1989	1990	1991	1992	1993	1994
Constant 1991 prices (Million shillings)	1,598	1,844	4,897	6,420	6,931	7,779	7,380
Percentage of GDP	0.1	0.1	0.2	0.3	0.3	0.3	0.3
Percentage annual growth	-5.5	15.4	165.6	31.1	8.0	12.2	-5.1

Source: Ministry of Finance and Economic Planning.

Indeed, the mining sector's prospects have been considerably enhanced by the recently developed geological database under the auspices of the Mineral Development Promotion Programme, as well as the strengthening of the Petroleum Exploration Department, especially with respect to geophysical and geological field surveys and sectoral monitoring activities.

Amid the frenzied prospecting and assessment activities being carried out by several transnational companies, while current mineral production remains low overall, the medium-term prospects of the industry look healthy. In the short-term, however, it is expected that the Government will continue to emphasize the harnessing and extraction of cobalt from pyrite stockpiles at Kasese derived from copper tailings at Kilembe; estimated reserves of copper at Kilembe is some 6.0 million tonnes, of which half is proven. Indeed, following the commission of a pilot cobalt-processing plant in Kasese in 1993, it has officially been confirmed that production at the plant has reached the design capacity of 1,000 tonnes of cobalt per annum, equivalent to 5 per cent of Western world cobalt supply.

Over the short to medium-term, the main tenet of mining strategy will also include promoting minerals used as raw materials in the industrial sector, including asbestos, clay, gypsum, graphite, kaolin, limestone, marble and phosphates. A study of phosphate deposits at Busumbra in the eastern part of the country is currently under way.

Energy

Presently, Uganda lacks the capacity to produce crude oil domestically, which means it must rely on imports to meet its requirements; this development renders the economy extremely vulnerable to sharp swings in international oil prices. Yet in contrast to the lack of crude oil resources to-date, Uganda's natural capacity for hydro-electric power generation is phenomenal. The country's potential for electricity generation is estimated at 2,000 MW, which if successful harnessed, would not only far exceed domestic requirements, but would also make it a major exporter of electricity to the sub-region. At present only a modest quantity of electricity is exported to Kenya and Tanzania, some 30 MW and 15 MW respectively, earning the country much-needed foreign exchange.

Bolstered by the rehabilitation, overhaul and uprating of the key Owen Falls Power station, installed electricity capacity amounted to 4,183 MW in 1995 (see Table I.11), of which almost 99 per cent is derived from the Owen Falls Power Station. In a bid to keep pace with strengthening industrial demand and attempts to overcome bottlenecks in domestic power supply, 1994 witnessed the commencement of the $340 million Power III Project, a key aspect of which is the expansion of capacity at Owen Falls. It is anticipated that by 1997 the completion of the first phase of the Owen Falls extension project - which involves a power house being built on the east side of the present dam - will bring additional capacity of 80 MW on-stream, and subsequently rising to full capacity of 200 MW by the year 2000.

Table I.11. Electricity: Installed capacity, 1988-1995 (MegaWatts)

	1988	1989	1990	1991	1992	1993	1994	1995
Total	155.0	155.0	155.0	155.0	165.2	171.0	174.5	183.0
of which:								
Owen Falls	150.0	150.0	150.0	150.0	162.0	168.0	171.3	180.0
Others	5.0	5.0	5.0	5.0	3.2	3.0	3.2	3.0

Source: Uganda Electricity Board.

In line with the Government's policy to develop additional generating facilities, accelerate the programme of urban and rural electrification and expand regional exports, several studies have already been completed aimed at the development of the so-called 'mini hydropower stations' at various locations, including Ishasha, Muzizi and Paidha. And contemporaneously, interest is being expressed by the private sector to develop a 290 MW power project at the Bujagali Falls.

Notwithstanding the commendable efforts being made to expand capacity, the current inability to meet growing demand for power, especially by the industrial sector, remains a significant constraint on economic activity. In the short-term, there must also be greater emphasis on reducing the widespread leakage in the system to allow the electricity board generate the vital funds needed to maintain and enhance capacity; estimates suggest over a quarter of the electricity produced is unaccounted for in official consumption figures.

Manufacturing

By every objective criterion, Uganda's manufacturing sector is largely underdeveloped, with aggregate manufacturing output accounting for just 7.0 per cent of GDP; indeed even during the 1960s when manufacturing development gathered strong momentum, the sector's contribution to GDP peaked at just 12 per cent. A manifestation of the relative underdevelopment of manufacturing is the fact that the sector's activity remains dominated by the production of basic consumer goods: according to latest official figures, food processing accounts for some 21.0 per cent of manufacturing output, while a further 26 per cent is emanates from the tobacco and beverages sub-sector.

Reflecting the prevailing trend in many developing economies at the time, during the 1960s, Uganda's industrial strategy was inspired by the production of basic goods, and based on a policy of import substitution. Characteristically, there was a heavy reliance on imported raw materials and intermediate goods to support output. And crucially, underpinned by the plethora of protectionist measures and a concentration of resources in the sector, manufacturing performance during the 1960s was quite robust, registering an annual average growth of 6.0 per cent. Inauspiciously, however, and akin to other sectors, the manufacturing sector was severely disrupted by both the civil war and the political turmoil witnessed in the 1970s and early 1980s. Indeed, the collapse in manufacturing production was exacerbated by civil war-induced destruction in the country's infrastructure and critically, by the expulsion of owner/managers, most of whom were Asians.

According to UNIDO statistics, while a total of 50 medium- and large-scale factories were operational in 1971, 15 of these were idle by 1981, with the remainder operating at extremely low capacity levels. In fact, the situation was even more acute within the small-scale sector; of the almost 900 operating enterprises in the sub-sector in 1971, only 418 could be identified by 1981, of which some 160 had ceased to be operational. However, since the onset of the country's Economic Recovery Programme and the accompanying emphasis on rehabilitating economically

viable enterprises and restructuring/divesting inefficient ones, the industrial sector has been given a new lease of life. Decidedly, a key impetus for industrial rejuvenation has been the greater incentives offered to producers following the pursuit of market-based policies, in particular the liberalization of the trade and exchange regimes. Also bolstering Uganda's industrial revival has been the return of expropriated enterprises and properties to former owners - both Asians and Ugandans alike - and the concomitant improvement of investor confidence.

Mirroring the general improvement in the macroeconomic environment, industrial sector growth since 1987 has been phenomenal (see Table I.12). With the exception of 1989 and 1991 when single digit growth was recorded, double-digit annual growth in industrial output has been the norm since 1987. Following a creditable 16.1 per cent expansion registered in 1987, industrial output growth strengthened to almost 24 per cent the following year, before falling back to an average annual rate of some 11.7 per cent over the period 1989-1993; in 1994, industrial out-turn rose by almost 21 per cent over the preceding year. Auspiciously, the rebound in industrial output has been broad-based, with the food processing and chemicals sub-sectors showing particularly strong growth; the only sub-sectors registering a contraction in output are textiles and clothing and chemicals. Yet notwithstanding the impressive performance, there remain significant constraints to rapid industrialization, particularly the prevalence of antiquated and obsolete plant and equipment, unreliability of input supplies, sub-par manpower and notable obstacles to credit and finance.

Table I.12. Index of industrial production, 1988-1994, selected years
(1987 = 100)

	Weight	1988	1990	1992	1994
Food processing	20.7	128.0	174.9	245.6	309.7
Tobacco and beverages	26.1	139.6	155.2	155.2	227.6
Textiles and clothing	16.3	121.8	116.3	111.9	68.1
Leather and footwear	2.3	62.0	75.3	79.5	97.1
Timber and paper	9.0	135.1	183.6	220.5	299.7
Chemicals, paint and soap	12.3	111.2	183.5	252.0	382.7
Bricks and cement	4.3	94.5	154.2	203.1	248.6
Steel and steel products	5.3	87.2	107.7	190.7	389.9
Miscellaneous	3.7	134.0	181.3	272.3	487.3
All items	100	123.7	155.5	191.2	260.3
Annual % change		23.7	7.1	7.3	20.7

Source: Ministry of Finance and Economic Planning.

Tourism

Uganda is increasingly becoming a favoured tourist destination within the sub-region. The linchpin of the industry is the variety of game stock and the wealth of unspoiled scenic beauty, which includes the spectacular escarpment of the western Rift Valley, rain forest and lakes, water falls, national parks, the wide range of bird species and mammalian population and the unique flora and fauna.

Since the early 1990s, the tourism sector has undergone a phenomenal revival, making it one of the fastest growing sectors of the economy. Tourist arrivals have increased at an average annual rate of almost 20 per cent since 1992, with the result that total arrivals are estimated to have exceeded 100,000 in 1995. The rejuvenation of tourism has been bolstered by several factors, including improved availability of reasonable tourist accommodation, the abolition of visa requirements for more than 30 countries, economic liberalization and in particular, the deregulation of the exchange regime. But the key to the sector's rebound is the consolidation

of relative peace and stability, and the boost to the country's international profile following its success in economic reform

Crucially, several policy measures have been implemented over the past five years to further boost tourism potential, principal among which is the provision of concessions to the private sector to develop tourist accommodation in the national parks; one of the key beneficiaries of this policy has been the Madhvani Group, which has recently acquired and invested some $3.5 million in rehabilitating the Mweya safari lodge in the Queen Elizabeth Park. And in a bid to streamline and strengthen the management of tourism resources, the Game Department and the Uganda National Parks have been merged to form the Ugandan Wildlife Authority, while a national tourism board - the Uganda Tourist Board - has been created to market the country's distinguished tourism attractions overseas, in particular, in the key Western European market.

But despite the buoyant revenue potential of the industry and the attendant linkages, the Government is keen to ensure that the development of tourism proceeds without undue degradation of the environment. To this effect, the overarching sectoral strategy is to de-emphasize mass tourism in favour of the development of low volume, high-value , eco-friendly tourism, including sailing and rafting activities.

Transport and communication

Unsurprisingly, much of Uganda's extensive, yet somewhat rudimentary, transport infrastructure deteriorated sharply during the prolonged period of civil strife. Auspiciously, however, cognisant of the critical role played by an efficient transport sector in the pursuit of economic development, the Government has accorded a major priority to the rehabilitation of the transport sector under its programme of economic recovery. Backed by donor assistance, including financial support from the African Development Bank, the UNDP, JICA and IFAD, considerable progress has been made in rehabilitating the transport infrastructure, and in particular, the rail and road sub-sectors. A key aspect has been the rehabilitation and completion of the Northern Corridor roads, and the rehabilitation and expansion of the network of feeder roads; according to official statistics, more than 7,000 kilometres of rural feeder roads have been rehabilitated since 1991.

In a bid to protect the significant gains made within the transport sector, the Government initiated a 3-year Transport Sector Investment Plan in the 1995/96 fiscal year, which aims principally at the maintenance of the entire trunk road network over the period. Critically, the private sector is being encouraged to play a significant role in this road maintenance programme; and an emphasis is being placed on local contractors using labour intensive methods and light equipments.

Yet, in spite of the substantial progress achieved in the reconstruction of roads, there remain strong concerns that road network may not keep pace with the rapid increase in traffic density within the country. To this effect, the Government is formulating a $1.0 billion road development programme to be implemented over the next 10 years, which would rely on donor support to pay for improvement, rehabilitation, and construction of new road, while the Government uses internal resources to pay for maintenance.

The rehabilitation of the transport infrastructure has not been limited the road subsector. And despite comparatively lower road transport costs following extensive rehabilitation, the rail system continues to play a crucial role in the country's economic development; the importance of the rail system can be seen in the fact that, almost half of all coffee exports are still carried by rail. Indeed, the rehabilitation of the rail network and new investment in locomotives and rolling stock has assisted Uganda Railway Corporation to double its annual handling capacity from just under 500,000 tonnes in 1993 to 1.0 million tonnes in 1995. However, as with the roads subsector, without significant new investment and expansion, there is a real risk that rail system's capacity will be reached in the near-term.

Banking and finance

Mirroring the robust economic expansion witnessed since the late-1980s, the financial sector has grown rapidly over the past decade. In addition to the central bank - Bank of Uganda - there are 15 commercial banks, 10 credit institutions, 19 insurance companies, 2 development banks and 1 building society. Moreover, there are some 80 licensed foreign exchange bureaux, which deal in the buying and selling of foreign exchange. Despite the plethora of financial intermediaries and increasing competition, in terms of assets and capitalization, the sector continues to be dominated by the Uganda Commercial Bank, which accounts for an estimated 50 per cent of total domestic deposits. The four foreign-owned banks - Barclays, Bank of Baruda, Grindlays and Standard Chartered - together account for a further 30 per cent of deposits.

Although deregulation and a tighter regulatory environment since the enactment of the Financial Institutions Act of 1993 has brought about a marked improvement in the banking sector, immense problems continue to linger. More than half of the country's commercial banks incurred losses in 1994, and indeed, several of these banks, including the mammoth Uganda Commercial Bank are technically insolvent. Two main factors have been the banks Achilles heel: the huge overhang of non-performing loans and a general lack of efficient administration.

The central bank has been given the task of restructuring the fragile banking system; but in fact, before this could be done the central bank itself needed to be restructured to furnish it with requisite managerial, technical, and supervisory capabilities needed to ensure the successful restructuring of the entire banking sector. Some of the key measures which have since been implemented as part of the banking sector reforms include the introduction of tighter capitalization ratios and the establishment of a Non-Performing Assets Recovery Trust; in addition, a harsher view now prevails over 'insider lending' and there exists a much stronger determination to close institutions which failed to meet established financial targets.

In the short-term, a major pre-occupation of on-going attempts to strengthen the banking sector will be the restructuring of the Uganda Commercial Bank. In 1996, the British merchant bank, Morgan Grenfell, commenced their assessment of Uganda Commercial Bank as official advisers on the bank's privatization. It has since emerged that the Government intends to seek a strategic investor to buy about 40-50 per cent of the bank, with the residual assets divested on the stock exchange.

The demand structure of GDP

Consistently accounting for over 80 per cent of GDP, private consumption is by far the main dynamic of domestic economic activity. In the early-1990s, private consumption represented over 90 per cent of GDP, although this share had fallen back to about 85 per cent by the mid-1990s (see Table I.13). Concurrent with the declining share of private consumption in aggregate demand, the share of government consumption has increased modestly in the 1990s, rising from 8 per cent of GDP in 1990 to 9.6 per cent in 1994. Gross fixed capital formation, meanwhile, has averaged below 15 per cent of GDP during the 1990s. However, set against the backdrop of the country's massive socio-economic needs, a greater rate of investment is imperative. But investment expenditure remains constrained by considerable barriers to the mobilization of domestic savings, not least due to the fact that about one-third of economic activity takes place outside the monetized sector. Critically, as a result of this, over the medium-term, a sizeable proportion of domestic investment will continue to be funded from abroad, in the form of concessional external financing.

The country's huge import needs, in particular capital goods imports, necessary to underpin its economic transformation has led to a massive external sector deficit. While exports of goods and services amounted to 7 per cent of GDP in 1990, the comparative share for imports of goods and services was just over 20 per cent; the consequence was that net trade represented a withdrawal from the economy amounting to 13 per cent of GDP. While the net balance of trade's withdrawal from the economy has fallen sharply - this equated to 8.3 per cent of GDP in 1994 -

the inability of export growth to keep pace with the growth in imports imply a significant external imbalance will continue to prevail in the short- to medium-term; this elimination of this deficit must remain a major policy priority.

Table I.13. Demand structure of GDP, 1990-1994, selected years
(Percentage)

	1990	1992	1994
Private consumption	91.0	90.4	84.9
Government consumption	8.0	8.5	9.6
Gross fixed capital formation	14.1	14.9	13.8
Net balance of trade	-13.1	-13.8	-8.3
Exports of goods and services	7.0	6.7	10.6
Imports of goods and services	-20.1	-20.5	-18.9
GDP	100.0	100.0	100.0

Source: Ministry of Finance and Economic Planning.

External trade and payments

The profile of merchandise exports bears testimony to the sustained period of dis-investment and underdevelopment that has occurred in Uganda's economic history; the low manufacturing base has implied that the economy is heavily dependent on imports, while on the export side, activity is dominated by primary commodities and products with a limited degree of manufacturing value-added.

As previously mentioned, coffee is the backbone of the Ugandan economy, and coffee exports overwhelmingly dominate aggregate export earnings. In the recent past, coffee exports have typically accounted for 70-75 per cent of total exports, significantly lower than the export share of some 90 per cent witnessed in the late-1970s and the 1980s. Indeed, the export share of coffee is likely to continue trending downwards as the trend towards greater diversification leads to an expansion in the production of other traditional crop - mainly, cotton, tea and tobacco. However, it accelerated the development of the non-traditional export sector in the recent past that has been most striking.

According to provisional data, exports of gold yielded some $23 million in 1995, equivalent to 5.5 per cent of aggregate merchandise exports, compared to a negligible export share registered during the previous year (see Table I.14). Notwithstanding this encouraging trend, it is believed much of the gold receipts were derived from gold re-exports from Zaire rather than from domestic production; and crucially, it remains uncertain as to whether this is sustainable. But more positively, is the growth in other non-traditional exports; fish exports in 1995 amounted to almost $18 million or some 4.2 per cent of total exports, while a further $20 million worth of foreign exchange was derived from the export of beans and cattle hides.

As with most low-income African countries, the bulk of imports consists of capital goods (see Table I.15); in 1994, machinery and transport equipment together accounted for a third of total imports, and this share rose to almost 36 per cent in 1995. A further 14 per cent and 11 per cent of total imports were respectively accounted for by imports of food, beverages and tobacco and textiles, clothing and footwear imports. Indeed, the large share of imports accounted for by food and food products is rather surprising; however, given Uganda's undoubted comparative advantage in the production of a large range of agricultural products, there clearly exists significant scope for import substitution in this area.

Table I.14. Structure of exports, 1994 and 1995
(Percentage)

	1994	1995[a/]
Coffee	75.0	73.8
Maize	6.3	4.6
Tea	2.6	1.7
Tobacco	1.5	2.1
Beans/legume	2.7	2.6
Cattle hides	2.4	2.1
Gold	0.1	5.5
Fish & fish products	0.4	4.2
Other	9.0	3.4
Total	100.0	100.0

Source: Ministry of Finance and Economic Planning.

a/ Provisional estimates.

With respect to large expenditures on imports of textiles and clothing, the majority of this is accounted for by second-hand clothing found mainly at the Owini market in Kampala. Crucially, the flood of such imports on the domestic market has greatly hampered the potential of the domestic industry.

Table I.15. Structure of imports, 1994 and 1995
(Percentage)

	1994	1995
Food, beverages & tobacco	14.2	15.9
Minerals	3.7	4.5
Fuel oil	6.1	1.9
Chemicals	8.5	10.1
Plastic & rubber	4.6	5.0
Paper & paper products	3.0	3.7
Textiles, clothing & footwear	10.6	8.7
Metal products	11.2	9.2
Machinery	16.7	19.1
Transport equipment	15.6	16.6
Miscellaneous	5.8	5.3
Total	100.0	100.0

Source: Ministry of Finance and Economic Planning.

Akin to other developing economies, Uganda's external trade profile is dominated by trade with the industrialized countries. By far, the European Union is the main destination of exports, although the Union's share in total exports has declined steadily to some 68 per cent in 1994 (see Table I.16). The major export markets within the EU, in declining order, are Spain, France and Germany which respectively accounted for 16.3 per cent, 15.2 per cent and 12.7 per cent of aggregate merchandise exports in 1994. The Netherlands, which accounted for a distended 21.5 per cent of Uganda's exports in 1990, saw its share plummet to below 5.0 per cent in 1994. Secondary export markets include the USA, Italy, and the UK. Unsurprisingly, exports to Africa are limited; since 1991, Africa's share in total exports have consistently fallen below 5.0 per cent.

Table I.16. Destination of exports, 1991-1994
(Percentage)

	1991	1992	1993	1994
EU	75.3	70.2	56.7	67.8
UK	6.3	8.4	6.4	6.0
Germany	9.8	9.6	8.3	12.7
Italy	6.9	5.1	5.7	8.1
France	14.4	11.8	10.8	15.2
Netherlands	19.5	15.7	6.4	3.8
Spain	9.8	11.2	10.8	16.3
USA	10.9	6.7	6.4	8.9
Eastern Europe	1.1	3.4	1.3	5.1
Africa	1.7	2.8	4.5	2.2
Kenya	0.6	2.2	3.2	1.6
Middle East	2.9	2.2	17.2	3.3
Saudi Arabia	0.0	0.0	14.6	2.4
Egypt	1.1	1.1	1.3	0.8
Asia	4.6	8.4	7.0	3.5
Other	3.5	6.3	6.9	4.1
Total	100.0	100.0	100.0	100.0

Source: IMF, Direction of Trade Statistics (various issues).

In contrast to exports, import sources by region is less concentrated. The EU and Africa each contributed some 30 per cent of imports in 1994, while a further 16 per cent of imports were sourced from Asia, including Japan. An analysis of trends shows a marked change in import sources in the 1990s. While the EU contributed some 45 per cent of total merchandise imports in 1990, this share has steadily fallen in favour of a growing share of imports from Kenya, in particular, and also from Asia. In 1990, some 8.8 per cent of imports were sourced from Asia, but by 1994, Asia's share in imports had virtually doubled to just under 16 per cent, with much of this growth originating from Japan and India.

Table I.17. Origins of imports, 1991-1994
(Percentage)

	1991	1992	1993	1994
EU	44.8	37.4	32.8	30.8
UK	17.6	13.2	11.1	13.3
Germany	8.1	7.1	7.1	4.4
Italy	7.1	3.6	3.1	3.8
France	4.0	3.3	3.5	2.9
Netherlands	1.3	2.3	2.0	1.9
Spain	2.5	3.3	1.1	0.4
USA	3.8	4.3	5.1	6.0
Japan	10.8	8.7	7.1	9.8
Eastern Europe	1.0	0.5	0.2	0.6
Africa	14.1	21.6	29.7	30.2
Kenya	12.8	20.1	28.2	27.9
Middle East	2.3	3.8	4.2	3.8
Saudi Arabia	0.3	1.5	1.8	1.7
United Arab Emirates	2.0	2.0	2.0	1.7
Asia	18.6	17.3	16.0	15.8
China	4.5	2.0	1.6	1.9
Hong Kong	2.5	3.6	2.9	3.7
India	3.5	5.3	6.9	7.5
Other	4.5	6.4	3.1	3.0
Total	100.0	100.0	100.0	100.0

Source: IMF, Direction of Trade Statistics (various issues).

C. POLICY ENVIRONMENT

Overview

As previously discussed, the NRM was confronted with an enormous social and economic challenge when it assumed power in 1986. Crucially, not only did the Government have to contend with the task of rejuvenating the war shattered economy, but also it was faced with the arduous task of restoring to health the virtual breakdown in the entire society. Thus, it came as little surprise that the new government's immediate pre-occupation was to restore law and order and pulverize the lingering insurgency in the northern and eastern parts of the country.

But after an initial period of equivocation, and as the security threat became somewhat contained, the Government moved to develop and implement a comprehensive programme of economic stabilization and reforms under the umbrella of the Economic Recovery Programme (ERP) which was launched in May 1987. In its simplest terms, the ERP aimed to restore economic stability to the country by establishing a realistic price structure needed to stimulate a robust short-term supply response, and rehabilitate the critical economic, physical and social infrastructure imperative to support sustained growth and development.

As with most other contemporary stabilization programmes in Africa and elsewhere Uganda's ERP was inspired and supported by the IMF under the auspices of the Fund's Structural Adjustment Facility (SAF) and by an IDA Economic Recovery Credit. And in 1989 when it became apparent that the Government needed to accelerate the pace and deepen the scope of reforms, the SAF was replaced by an Enhanced Structural Adjustment Facility, and concurrently, the IDA extended a second Economic Recovery Credit. The specific objectives of the ERP were to bring about a rapid economic recovery, while reining-in price pressures and correcting acute external sector imbalances. The programme's initial targets included achieving annual economic growth in excess of 5 per cent to ensure positive, albeit modest, growth in per capita incomes, and reducing inflation from triple digit to single digit by 1991/92.

Against a backdrop of extreme overvaluation of the domestic currency, one of the actions taken by the Government was to remove price distortions through a realignment of relative prices via a devaluation of the exchange rate. Accordingly the shilling was steadily devalued, with the result that by mid-1990 the exchange rate of the shilling to the US dollar exceeded 400 to 1, compared with the rate of Ushs 14 to the US dollar which prevailed at the onset of the ERP. Simultaneously, in a bid to provide strong incentive towards diversifying the export base, a policy permitting 100 per cent retention of all non-coffee export earnings by exporters to finance critical imports was adopted. With respect to demand management, the key policy objective was to control inflation through tight fiscal and monetary policies, a broadening of the tax base and a rationalization of the tax structure.

Auspiciously, these stabilization measures were complemented by exhaustive price liberalization, phased withdrawal of producer subsidies and the deregulation of internal marketing and distribution of most commodities; the latter saw the abolition of most parastatal marketing monopolies. And steps were taken to liberalize the external marketing of coffee. Additionally, in a bid to mobilize domestic savings to underpin prospects for deeper investment, a regime of positive real interest rates was established. With respect to sectoral policies, the aim has been to improve availability of critical inputs, strengthen support systems, particularly extension services and the provision of credit; within industry, emphasis has been placed on revamping capacity utilization through obsolete machinery and equipments and removing the constraining foreign exchange bottleneck. Overall, the Ggovernment's recent economic strategy has been to limit government intervention in the economy, enhance the role of the private sector in both production and distribution, and rely on market forces as the key mechanism for resource allocation.

Fiscal policy

With the main thrust of successive fiscal policies being to ultimately achieve financial independence for the domestic economy, the NRM's tenure in power has been accompanied by a marked transformation in the country's public finances. This transformation has been underpinned by various structural and institutional changes, among which are the restructuring of the tax authority, the introduction of the Public Investment Programme - designed to ensure that budgetary expenditures reflected investment priorities - a programme of civil service retrenchment and the divestiture of the plethora of public enterprises. In addition there has been a decisive shift from a reliance on export and trade taxes in favour of expenditure and income taxes.

Amid the acute need to improve revenue performance, the Uganda Revenue Authority (URA) was established in 1991 as part of a comprehensive programme to overhaul tax administration. Established as an independent institution outside of the civil service, the URA was granted priority funding status; a development which not only enabled it to financially incentivize its officials, by paying them an efficiency wage and minimising corruption, but also the independence granted the URA assisted it to streamline decision-making. Bolstered by resource and capacity enhancements, the URA has succeeded in expanding the taxpayer Identification Number to cover more than 400,000 individuals and some 60,000 businesses, improved auditing and performance monitoring, as well as tighten custom documentation and pre-shipment inspection of imports.

And there has been a considerable rationalization of the tax system itself, designed to broaden the tax base, while other reforms have aimed to achieve better compliance through lower tax rates. In this respect, income tax rates have been streamlined, with the top personal rate lowered from 40 to 30 per cent; and a number of previously non-quantifiable personal benefits have been monetized and taxed. Corporate tax rates have also been reduced from a high 50 per cent to 30 per cent, and import duties have similarly been rationalized.

Amid the recent coffee boom, the Government decided to re-introduce coffee export taxes in 1994/95, mainly as a means to mop up excess liquidity; the result was a revenue windfall for the Government which amounted to some 5.4 per cent of total revenues for the fiscal year. As the applicable tax rates kicked-in beyond stipulated price thresholds, the discentive effect of the tax was minimized to a large degree. As part of measures to broaden the tax base, a 17 per cent Value-Added Tax was introduced in mid-1996. Thus far, the careful planning and mass education that preceded the introduction of the VAT has ensured that there has been little attendant dislocative effects.

On the expenditure side, a key policy development has been the prioritization of both recurrent and development spending. And to assist in meeting recurrent expenditure targets, there has been an extensive retrenchment of the civil service and the demobilization of the hither-to bloated army. Public sector reforms have also involved the restructuring of a host of parastatals and divestiture of selected enterprises. The target is for some 85 per cent of parastatals to be divested by the end of 1997.

Monetary policy

Monetary policy has aimed expressly to curtail inflationary pressures emanating principally from excessive monetary expansion. But in the formative years of the stabilization programme, attempts by the central bank to rein-in money supply growth were to a large degree undermined by fiscal considerations. In particular, excessive net credit to the central government and direct central bank credit provisions to public enterprises induced high monetary expansion; in 1991/92 a 32 per cent net credit expansion to the Government was the principal factor which sharply fuelled inflation during the year.

Despite fiscal policy becoming tighter in 1992/93, increased private foreign transfers continued to stoke monetary supply growth, albeit at a lower level; in fiscal year 1992/93, broad money grew by 42 per cent compared to over 53 per cent in the preceding period. But, subsequently, improved

fiscal management combined with a sharp deceleration in domestic credit expansion has brought about a steady downtrend in monetary growth. In 1994/95, broad money grew by 25 per cent, but on the upside, much of this growth was derived from productive activity in the private sector and a strong external performance, rather than from credit expansion to the public sector. Critically, the deceleration in credit expansion has been assisted by the fact that financial institutions are no longer obliged to lend to the Government, and moreover, the central bank has ceased to provide direct loans to public enterprises.

As with the structural shifts in the sources of monetary growth, developments in interest rate policy have been just as radical. Until 1992, interest rates were determined centrally by the Bank of Uganda. The level and structure of interest rates were set by the central bank in consultation with the Ministry of Finance and Economic Planning. And the maximum lending rate charged by commercial banks was also administratively set by the central bank; a development which resulted in highly negative real interest rates. However, in November 1992, the central bank moved to decontrol some rates and linked others to a reference rate, determined by the annualized discount rate on treasury bills. Following on from this, effective July 1994, the interest rate regime became fully liberalized.

Foreign exchange rate policy

The key objective of foreign exchange policy has been to achieve a competitive exchange rate combined with an efficient system of foreign exchange allocation. In this respect, a significant component of the economic stabilization programme has been a progressive movement towards a market-determined exchange rate regime. An auction system for foreign exchange allocation was established in January 1992, but this system was abolished in November 1993 and replaced with a unified interbank market exchange rate. Alongside this more transparent regime, the central bank abolished all exchange restrictions on current payments and transfers.

Bolstered by the success in liberalising the exchange rate, the shilling strengthened sharply on the back of robust foreign exchange inflows derived from capital repatriation, stronger inward investment and the coffee boom. Indeed, in the year to December 1994, the shilling appreciated by over 20 per cent presenting the Government with a major challenge with respect to on-going attempts to diversify the export base away from the coffee sector. However, after reaching a high of about Ushs 920 to the US dollar in October 1994, the currency has since depreciated steadily; in August 1996, the shilling exchange rate to the US dollar was about 1,065.

Trade policy

As part of the broad strategy of economic deregulation, trade policy has aimed explicitly at replacing the byzantine labyrinth of trade controls which existed prior to the onset of the ERP with a simple, rationalized and transparent trading regime. Thus a number of measures have been coherently implemented to liberalize the trading environment, the key ones being the introduction of Export and Import Certificates which replaced the erstwhile licensing system. In September 1990, Export Certificates were introduced which automatically allowed the export of all goods and commodities with the exception of those mentioned in a negative list. Following success in liberalising exports, a system of Import Certificates was instituted in November 1991, which like Export Certificates, permitted all kinds of imports except those proscribed by the negative list.

Yet despite the systematic liberalization of the trade environment and the reduction in tariff barriers, there still exists a high degree of effective protection which comparatively abets import substitution and ultimately undermines export promotion. This, notwithstanding, there has been a modest diversification in the export base, as manifested by the average annual growth in non-coffee exports amounting to 30 per cent since 1991.

Crucially, Uganda is making great strides in facilitating the development of free trade with its regional partners. In a bid to strengthen mutual co-operation and facilitate economic integration,

Tanzania, Kenya and Uganda signed an agreement in 1993 which established a Tripartite Commission as a first step towards the resurrection of the defunct East African Community. Indeed, the agreement has paved the way for free cross-border currency movements, improved co-operation in transportation and communication, and brought about the dismantling of several non-tariff barriers to trade. And as part of a broader regional integration, Uganda accords tariff concessions on goods and services originating from member countries of the Common Market of Eastern and Southern Africa (COMESA), which supplanted the Preferential Tariff Arrangement in November 1993.

II. THE MANUFACTURING SECTOR

A. GROWTH AND STRUCTURAL CHANGE

Growth

Uganda enjoyed a period of industrial growth during the 1960s, largely founded upon the manufacture of agriculturally-based products. During the 1970s and early 1980s, however, the country experienced its worst period - along with many other elements of Ugandan society, the manufacturing base crumbled. By contrast, the late 1980s and early 1990s have seen relative stability, and thus industry, generally, has been able to grow and prosper.

Large scale industry in Uganda did not arise until the 1950s, when facilities owned by either the colonial government, foreign companies or Ugandan Asians began operating.[1/] Early in the next decade - October 1962 - Uganda gained its independence from the United Kingdom. The colonial experience left the newly-independent country with an economic system that was highly regulated and racially segregated. Government effectively controlled industry through regulation, with most manufacturing activities of importance owned by either Ugandan Asians or British expatriates.

Although the manufacturing sector was small at the time of independence (6.8 per cent of GDP[2/]), it was expanding, particularly in the areas of textiles and food processing.[3/] Moreover, there was good reason to believe that a period of sustained growth for the manufacturing sector lay just ahead. The country had a number of natural, economic and social advantages. Geographically, it was blessed with good soil and rainfall, thus providing encouragement for agro-based manufacturing activity. In addition, Uganda had, compared with other newly-independent African countries, well-developed infrastructure. Finally, its social services were relatively effective. This helped to produce, among other things, high educational standards and a stable and disciplined urban labour force.

Some of this promise was indeed fulfilled during the decade after independence. Boosted by supportive economic policies (though following a general 'import-substitution' strategy for industrialization, the new government still tended to look more 'outwards' than 'inwards')[4/] and relative stability (the sole exception to this was the ousting from power of Kabaka, the traditional ruler of the Baganda, by Milton Obote in 1966), manufacturing activity increased during the rest of 1960s: the average annual rate of real growth was more than 6 per cent.[5/] Indeed, manufacturing activity reached a peak in 1970, at which time it accounted for 12.4 per cent of GDP.[6/] Most of this growth, however, was driven by large-scale industry, which was reliant upon the large subsidies it needed in order to secure the necessary imported technologies. This suppressed the development of small-scale industry, which effectively received no support.[7/]

Soon into the 1970s, however, Uganda's fortunes changed dramatically. After a coup in 1971, Idi Amin took charge of the country. Under this new regime, Uganda degenerated into civil war and ethnic strife. Like virtually every other facet of Ugandan life, manufacturing suffered a dramatic decline in fortunes. As a consequence of the expulsion of Ugandan Asians in 1972, the country was left with precious little in terms of managerial and technical expertise. Mass expropriation also deterred potential foreign investors. The country's infrastructure, crucial for supporting a successful manufacturing base, also deteriorated; the rate of decay was further accelerated by the ongoing fighting.

Inappropriate industrial and economic policy-choices only served to make a bad situation even worse. Protectionist policies for local industries, coupled with greater involvement of the public sector in economic activity, meant that economic and financial efficiency and discipline suffered. Indeed, many commercial premises were physically wrecked during the 1970s; those that were not were forced idle by the lack of spare parts.[8/] As a result, by the end of the decade, the manufacturing sector was operating at less than 10 per cent of its installed capacity.[9/] Given this collapse in the formal sector, some informal sector industrial output did develop after 1972. In this way, an entrepreneurial and flexible small business class began to emerge.

With the return of Milton Obote to power in 1980, a stabilization programme was introduced. Of particular relevance to manufacturing were three key elements: financial assistance for the reconstruction of the country's industrial base; promotion of foreign investment; and the introduction of the Expropriated Properties Act, intended to encourage dispossessed Asians to return to the country. The Obote II regime was, in the view of many, little better than the first incarnation. Nevertheless, the manufacturing sector experienced some recovery: annual growth rates were 16 per cent in 1982 and 8.3 per cent in 1983.[10/] However, lapsed fiscal discipline, coupled with increased political instability and intensification of the civil war, effectively cut short this recovery. In 1984, manufacturing declined by 3.2 per cent. This was followed by declines of 9.8 per cent and 5.9 per cent in each of the next two years. Overall, this was a contraction of almost 18 per cent between 1983 and 1986.[11/]

The National Resistance Movement (NRM), under the leadership of Yoweri Museveni, came to power in early 1986. The NRM inherited a dismal manufacturing base - effectively demonstrating the damage done by the previous 15 years, it was estimated that Uganda's industrial output in 1986 was little more than one-third of what it had been in 1971.[12/] To attempt to redress this (and, of course, to develop the economy more broadly), an Economic Recovery Programme (ERP) was introduced with donor support in May 1987. High on the list of priorities in these plans were manufacturing-related items, just as had been identified seven years earlier: in particular, the rehabilitation of the country's critical infrastructure; and the encouragement of foreign investment, specifically by seeking to resolve the issue of dispossessed Asian properties.[13/] Greater stability and predictability proved supportive to manufacturing activity in Uganda, and the sector grew dramatically during the late 1980s (see Table II.1).

Table II.1. Contribution of manufacturing to Uganda's GDP, 1986/87-1994/95

	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95
Manufacturing (millions of shillings)	77,302	90,512	98,857	105,252	112,919	130,676	139,780	161,008	189,489
Percentage change on previous year	+2.4	+17.1	+9.2	+6.5	+7.3	+15.7	+7.0	+15.2	+17.7
Ratio of manufacturing to total GDP	4.8%	5.3%	5.4%	5.5%	5.6%	6.3%	6.2%	6.8%	7.2%

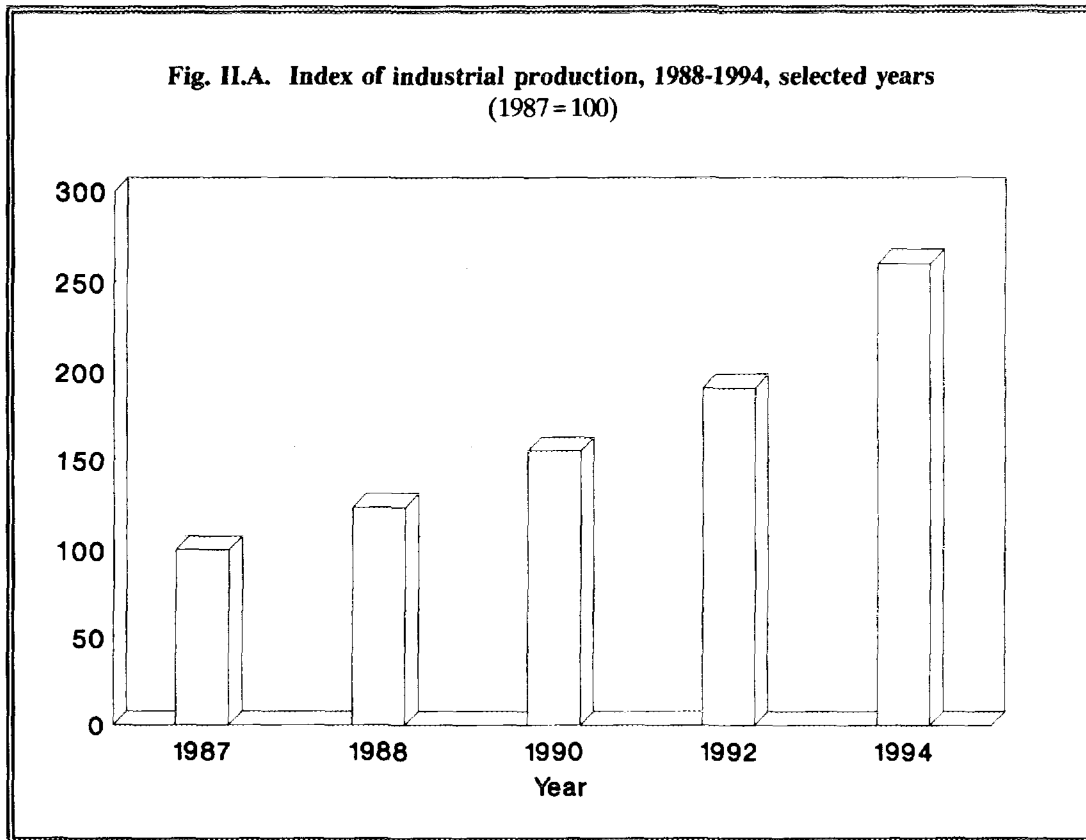
Source: Government of Uganda, *Background to the Budget, 1995-1996*, Ministry of Finance and Economic Planning, Kampala, June 1995, p. A9.

Note: All figures for GDP at factor cost at constant (1991) prices.

The 1990s have proved to be just as buoyant. Indeed, between 1986/87 (when economic restructuring began) and 1994/95, the share of manufacturing output in relation to total GDP rose

from 4.8 per cent to 7.2 per cent. An IMF study argues that manufacturing activities during this period have been supported by 'the reduction in macroeconomic distortions, the liberalization of investment and the trade licensing requirements, the increased access to foreign exchange and the improvements in tax and tariff administration'.[14/]

Fig. II.A. Index of industrial production, 1988-1994, selected years
(1987 = 100)



Though these trends are encouraging, they must be kept in perspective. Perhaps the most sobering observation is that manufacturing still does not occupy as large a role in the Ugandan economy as it did at the time of independence. Moreover, even the recent recovery may not have been as large as it otherwise could have been. E.A. Brett argues that 'industrial growth has been inhibited by the failure to restructure and privatize the parastatal sector, ... high interest rates, an inefficient banking sector, regressive taxation, restrictive licensing and poor communications and information systems'.[15/] A recent UNIDO study supported this by highlighting four major constraints on industrialization:

- outdated/obsolete industrial plant;
- unreliability/scarcity of production inputs;
- inefficient manpower inputs; and
- restricted access to financing.[16/]

A small domestic market, costly transport systems, along with competition from better equipped producers in Kenya add to the challenges facing Ugandan manufacturers.

These points notwithstanding, there is also great potential for further development of the country's manufacturing base. The country still has vast reserves of natural resources that remain untapped: large areas of land are underutilized, including perhaps three-quarters of the arable potential;[17/] economically-viable deposits of various minerals exist; and the country's lakes and rivers could support much more manufacturing activity (in 1995, only nine of 20 industrial fish-processing

Table II.2 - Manufacturing production, 1989-1994

Commodity	Sector ISIC code	Unit	Installed capacity	1989	1990	1991	1992	1993	1994
Edible oil and fat	1514	tonnes	..	92	79	47	628	1,654	6,265
Processed milk	1520	'000 lts	47,450	17,112	17,319	21,199	22,705	25,880	27,671
Wheat flour	1532	tonnes	45,000	13,871	12,865	11,247	12,222	10,090	8,274
Animal feeds	1533	tonnes	52,252	15,952	15,033	21,528	20,005	18,222	35,448
Biscuits	1541	tonnes	648	56	128	94	90	44	380
Sugar	1542	tonnes	160,000	15,859	28,913	42,455	53,539	49,263	59,175
Sweets and toffees	1543	tonnes	5,430	51	42	128	58	4	..
Roasted and ground coffee	1549	tonnes	1,600	38	65	70	99	45	17
Soya foods	1549	tonnes	600	78	133	201	159	144	193
Curry powder	1549	tonnes	152	42	54	17	8	12	9
Uganda waragi	1551	'000 lts	2,000	364	376	369	331	280	459
Beer	1553	'000 lts	49,128	19,516	19,421	19,529	18,718	23,882	30,822
Soft drinks	1554	'000 lts	..	17,898	24,273	25,982	21,768	26,899	41,001
Cigarettes	1600	mill.sticks	1,900	1,586	1,290	1,688	1,575	1,412	1,459
Cotton and rayon fabrics	1721	'000 sq.m.	57,092	11,755	8,152	8,904	9,649	7,482	4,270
Blankets	1721	'000 pcs	1,500	87	69	38	50	81	118
Gunny bags and hessian cloth	1723	tonnes	5,400	868	431	205	..	..	407
Fish nets	1723	'000 pcs	550	55	62	35	63	106	145
Twines and cords	1723	tonnes	200	35	66	10	8	5	6
Garments	1810	'000 dzs	125	27	31	39	39	30	11
Bedsheets	1810	pairs	..	2,547	982	2,795	713	111	846
Finished leather	1911	'000 sq.m.	471	15	42	41	40	20	15
Footwear	1920	'000 pairs	5,093	359	319	221	418	326	660
Foam products	2029	tonnes	..	905	849	695	719	640	726
Spring mattresses	2029	no.	36,000	..	70	205	39	73	27
Brooms and brushes	2029	'000 pcs	500	61	73	62	52	45	31
Paper	2111	tonnes	2,690	262	393	346	507	197	94
Corrugated cardboard boxes	2112	'000 sq.m.	1,944	132	190	403	460	628	794
Toilet paper	2119	'000 dzs	..	152	118	61	..	272	440
Paper sacks	2119	'000 pcs	12,144	812	1,073	1,037	323	224	535
Envelopes	2119	'000 pcs	124,000	4,449	993	294	1,846	599	142
Exercise books	2222	'000 gross	..	54	24	15	40	20	39
Oxygen	2411	'000 cu.m.	..	76	80	93	116	127	123
Acetylene gas	2411	'000 cu.m.	108	11	13	18	22	26	20
Paints	2422	'000 lts	4,311	315	148	331	923	1,221	1,502
Soap	2424	tonnes	59,040	27,110	30,552	33,284	38,661	47,588	48,539
Matches: small size	2429	cartons	..	390	42	..	..	1,973	4,641
Matches: large size	2429	cartons	12,000	189	59	..	..	..	..
Cycle tires and tubes	2511	'000 pcs	2,400	2	18	46	..	..	..
Rubber solution	2519	'000 pcs	12,960	383	62	214	43	..	..
Jerrycans (plastic)	2520	'000 units	2,000	310	311	609	843	859	1,720
Tableware (plastic)	2520	'000 dzs	500	124	91	144	279	426	463
Clay bricks, tiles, etc.	2693	tonnes	..	11,688	14,519	13,801	15,396	18,055	18,356
Cement	2694	tonnes	507,500	17,378	26,920	27,138	37,881	51,996	45,227
Cement blocks and tiles	2695	tonnes	..	5,312	10,548	15,332	7,755	8,585	18,957
School chalk	2695	cartons	19,200	5,942	769	6,118	7,660	3,334	10,486
Corrugated iron sheets	2710	tonnes	44,000	1,377	1,254	2,296	5,782	14,331	25,134
Steel beds	2811	no.	36,000	2,098	1,089	2,436	1,662	3,074	1,962
Steel doors and windows	2811	tonnes	480	404	321	388	347	292	130
Hoes	2893	'000 pcs	3,600	532	803	784	813	150	881
Other misc. metal products	2899	tonnes	26,360	1,704	1,791	4,509	9,205	9,813	12,686
Cables/conductors	3130	tonnes	1,180	158	122	95	233	454	536
Motor batteries	3140	pcs	50,000	12,712	19,386	27,303	33,078	43,918	47,442
Exhaust pipes and silences	3430	no.	..	453	392	215	124	98	65
Number plates	3699	pairs	24,000	6,776	7,191	21,309	3,917	10,603	14,900
Toothbrushes	3699	'000 pkts	33	7	1	7	9	25	29
Pencils	3699	gross	79,200	3,941	1,967	6,468	1,787	1,487	..
Ballpens	3699	'000 pkts	192	49	28	56	99	101	95

Source: Government of Uganda, *Background to the Budget, 1995-1996*, Kampala, Ministry of Finance and Economic Planning, June 1995, p. A51.

Note: The coverage is essentially of those establishments included in the Index of Industrial Production and does not necessarily reflect total production of manufactured goods in Uganda.

plants were operational[18/]). The Economist Intelligence Unit reports that the Ugandan authorities 'clearly see that the main priorities for development lie in building links with the agricultural and mining sectors, and the promotion of import substitutes where this can be cost-effective'.[19/] UNIDO, meanwhile, has identified the following as priority areas:

- resource based industries;
- the creation of inter-industry and intra-industry linkages and linkages with the rest of the economy;
- the maximization of local value added through secondary and tertiary processing of domestic raw materials; and
- the capacity for foreign exchange earnings and/or net savings.[20/]

Structural Change

Data for the major manufactured goods produced in Uganda are presented in Table II.2. From this, it is clear that manufacturing is dominated by the processing of locally produced agricultural commodities - indeed, food processing, tobacco and beverages, and textiles and clothing together account for over 60 per cent of Uganda's manufacturing production.

A survey by the Ugandan Ministry of Finance and Economic Planning reveals the relative contribution of the subsectors to MVA. Table II.3 lists the 21 major groupings of manufacturing activity in Uganda, showing the contribution of each to the country's MVA as a whole in 1989. From this, the dominance of the food products sector is clear: it contributes over 40 per cent of the country's MVA. Further, the relative importance of beverages (11.4 per cent), textiles (9.1 per cent) and tobacco products (8.6 per cent) reveal the importance of manufacturing activities that are based upon agricultural inputs.

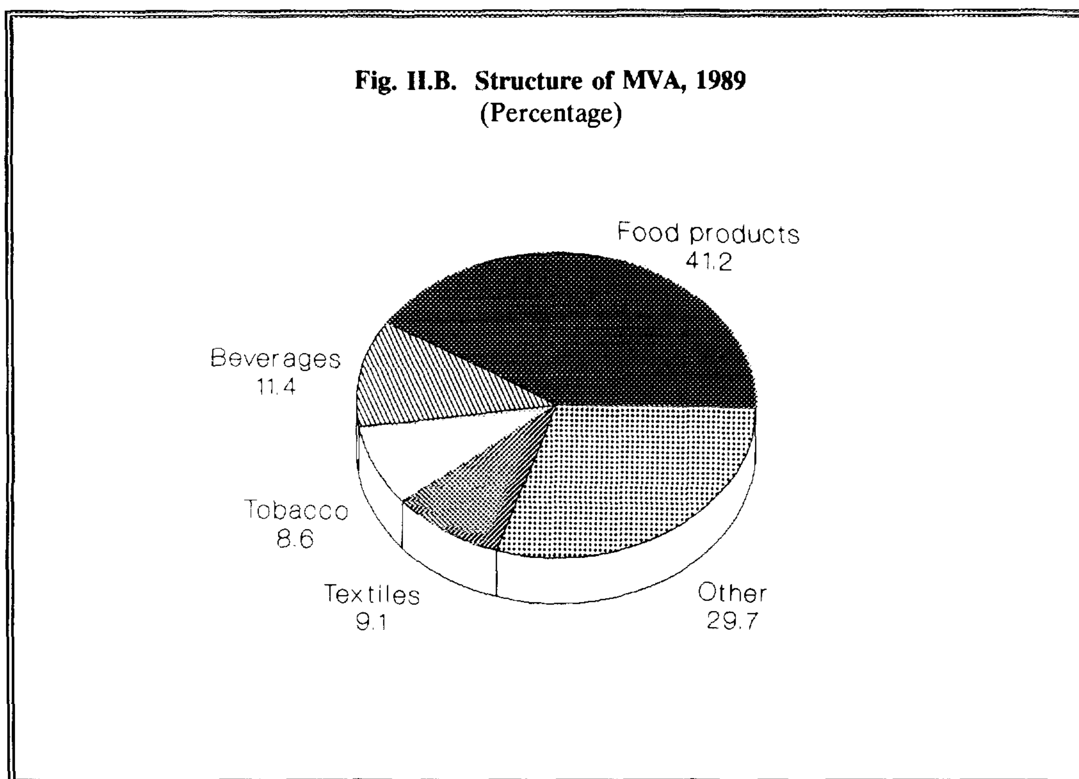
Table II.3. Structure of MVA, 1989
(Percentage)

Products	ISIC group	Percentage share
Food products	151-4	41.2
Beverages	155	11.4
Tobacco products	160	8.6
Textiles	171-3	9.1
Wearing Apparel	181	1.3
Leather and leather products	191	0.2
Footwear	192	1.3
Wood and wood products	201/2	1.9
Paper and paper products	210	0.9
Printing and publishing	221-3	1.3
Basic chemicals and other chemical products	241/2	5.9

Products	ISIC group	Percentage share
Rubber products	251	0.2
Plastic products	252	0.6
Other non-metal mineral products	269	2.4
Basic iron and steel	271	1.1
Casting of metals	273	0.1
Steel and metal products	281/9	6.3
General and special purpose machinery	291/2	0.6
Electrical machinery	311-4/23	1.7
Transport equipment	342/3	0.2
Furniture	361	3.9
Total manufacturing		100.0

Source: Census of Business Establishments, Uganda 1989, Manufacturing Sector Report, Entebbe, Ministry of Finance and Economic Planning, December 1993), p. 20.

The share of different sub-sectors of total manufacturing production have changed during the past seven years. (The major shifts that occurred during the early-mid 1980s were, first, the considerable rise and fall of leather and footwear, and, second, the significant decline in output from textiles and clothing, and bricks and cement.) Since 1987, most sectors have experienced considerable growth - the most dramatic being a more than tripling (between 1987 and 1994) in each of the food processing, chemicals and steel subsectors; production of textiles, clothing, leather and footwear, by contrast, has experienced no growth.



Finally, Uganda has relatively few large-scale manufacturing establishments. A government survey found that there were only 12 establishments with 500 or more employees (of a total of 1,646 operating in 1989). 'Of these twelve, five are found in food processing activities and a further three in the agro-based activities of manufacturing tobacco products and spinning and weaving textiles.'[21/] Not surprisingly, however, the largest have the most impact: together these establishments employed 28.1 per cent of the workforce and generated 41.0 per cent of the value added. At the other end of the spectrum, 'the 698 smallest (5-9 employees) operators representing 42.5 per cent [of all establishments in the survey] engaged 8.5 per cent of the work force in putting out 5.1 per cent of Value Added'.[22/] Table II.5 provides further information about the differing size of business establishments in Uganda.

B. INDUSTRIAL EMPLOYMENT

Quantitative trends

The contribution of manufacturing to total employment in Uganda is small. UNIDO recently estimated that the figure was just under 60,000.[23/] An ILO study, alternatively, found that just over 140,000 worked in 'manufacturing, mining and utilities'.[24/] Finally, a World Bank study used the broadest definition of 'manufacturing', taking it to include both modern and traditional manufacturing as well as construction, electricity, gas and water. It placed the figure for mid-1992 at 213,000, which constituted about 3 per cent of all Ugandan workers.[25/] Whichever way it is calculated, employment in manufacturing, and industry more broadly is dwarfed by the agricultural sector. It is widely accepted that the latter accounts for approximately 80 per cent of the country's workforce.

Indeed, industrial employment ranks behind not only agriculture, but services as well, in both the urban and the rural parts of the country. In what the World Bank classifies as 'urban' areas, 96,700 people were employed in industry, while services employed almost five times as many (470,900), and even agriculture employed almost one-third more (126,400; thus revealing the extent to which 'agrarianization' of the urban areas has occurred).[26/] Perhaps less surprisingly, these differences were even more profound in rural Uganda: only 2.0 per cent of the rural workers were

in industry (116,300 in absolute figures), as compared with 87.3 per cent (5.1 million) in agriculture and 10.5 per cent (613,000) in services.[27]

Most workers in industry can be found in small-scale activities. A 1988 survey found that manufacturing enterprises with five or more workers together accounted for only 53,500 workers - about one-quarter of the total industrial workforce and a mere 0.8 per cent of the labour force.[28] More recent data suggest that the share of manufacturing activity undertaken by small-scale enterprises has increased. In 1995, the Government reported that, for a selected number of manufacturing enterprises, the average number of employees in manufacturing firms had fallen sharply from 163 in 1990 to 92 in 1995.[29] Full data about employment in the manufacturing sector are provided in Table II.4. From this, the dominance of the food, beverage and tobacco subsector is clear - it employs almost half of all Ugandans working in manufacturing, narrowly defined.[30] Finally, though it is difficult to secure statistics on employment creation in industry, at least one observer is confident that 'the recovery in economic growth over the seven-year period [that is, between 1987 and 1994] is likely to have reduced the unemployment rate.'[31]

Table II.4. Employment (absolute numbers and relative share) in the manufacturing sector by main subsectors, 1989

Subsector	Number of workers	Percentage share	Employment per enterprise
Food, beverages and tobacco	28,035	47.0	58
Textiles, clothing, leather and footwear	10,320	17.3	65
Wood and furniture	9,760	16.4	18
Paper and paper products	2,050	3.4	19
Chemicals, rubber and plastics	1,610	2.7	34
Non-metallic mineral products	3,150	5.3	53
Iron and steel	635	1.1	91
Tools, hardware, metals, and machinery	4,070	6.8	13
Other	30	0.1	15
Total	59,660	100.0	35

Source: World Trade Organization, *Trade Policy Review*, Uganda, 1995, Geneva, October 1995, p. 72.

Educational background and skill levels

Independent Uganda inherited one of the best-managed educational systems in sub-Saharan Africa. Provided by a combination of state, mission and private agencies, education was provided on a free or highly subsidized basis. The colonial influence, however, was clearly still evident in post-independence Uganda: modelled on the British system, the schools were primarily populated by urban elites. Nevertheless, this did serve to create a substantial foundation of well-educated Ugandans, many of whom continue to have influence in the country's policy-making today.

Much of the educational system was taken over by the Ugandan state in the late 1960s. Neglect during the subsequent Amin period, coupled with persistent economic difficulties, meant that schools at all levels experienced considerable decline. These years have left Uganda with a sad legacy: one survey found that 17 per cent of the country's men and 39.5 per cent of women had never attended school; while only 8 per cent of men and 3.3 per cent of women had completed 'O levels' (qualification for 16-year-olds).[32]

The National Resistance Movement has made education a national priority. Indeed, even in the face of reduced government spending, education has always been identified as one of the key 'Priority Programme Areas'.[33] Consequently, government spending on education has

consistently and steadily been increasing (by 25 per cent in real terms between 1989 and 1994).[34/] Particular emphasis has been placed upon primary education, with the government's stated aim of realizing free primary education for all by early next century. Some movement towards this goal is already evident: primary school enrolment rose from 2.31 million in 1987 to 2.60 million in 1994 (an increase of 13 per cent).[35/] There are, in addition, other pillars to the government's current 'Education Reform Programme'. It also aims to rehabilitate and develop physical structures, develop curriculum geared towards vocationalization of education and improve the quality of teaching through teacher training.[36/] Nevertheless, it is still the case that many teachers are untrained and that much reliance is placed on parental support - as a consequence, standards vary widely.

Enrolment has also increased in the secondary sector, from 224,375 in 1987 to an estimated 246,698 in 1994.[37/] Similar levels of public support, however, have not been forthcoming, for there have been no major investments in secondary education since the 1970s. Meanwhile, in the tertiary sector - dominated by Makeree University, which still accounts for about 95 per cent of undergraduate entry - fortunes have been mixed. Although higher education institutions continue to receive significant tranches of public financing (because of the fact that the state covers all tuition and maintenance costs for students), over one-third of staff-posts were unfilled in 1994.[38/] There have been calls for much greater cost-recovery at the tertiary level.[39/] Table II.5 provides full details of Uganda's educational enrolment and numbers of teachers at primary, secondary and tertiary levels.

Table II.5. Education statistics, 1987, 1990 and 1993

	1987	1990	1993
Number of primary institutions	7,627	7,667	8,430
Numbers of teachers at primary institutions	72,970	81,590	91,905
Enrolment at primary institutions	2,307,800	2,281,590	2,462,309
Number of secondary institutions	515	510	508
Number of teachers at secondary institutions	12,000	11,069	14,620
Enrolment at secondary institutions	224,375	223,498	231,430
Number of tertiary institutions[a/]	170	145	146
Number of tutors and lecturers at tertiary institutions[a/]	3,398	3,243	3,785
Enrolment at tertiary institutions[a/]	29,437	23,872	50,266

Source: Government of Uganda, *Background to the Budget, 1995-1996*, Kampala, Ministry of Finance and Economic Planning, June 1995, p. A60.

a/ Includes teacher training colleges, technical schools and institutes, teacher colleges, Uganda technical colleges, Uganda commercial colleges, other higher institutions and universities.

The role of women

Traditionally, Uganda has been a male-dominated society: although women often carried a disproportionate share of the workload, their economic and political influence has been limited.[40/] In agriculture, for example, even though women constitute over one-half of the workforce,[41/] the fact that the 'traditional gender division of labour assigned the responsibility for food crops to women and export crops to men' meant that women 'laboured much longer hours than men', yet received much less monetary reward for their efforts.[42/]

In industry, meanwhile, female participation is much less: urban and rural areas similarly reveal that about 15 per cent of all workers are women.[43/] Within manufacturing, a government survey found that 'the coffee processing industry employed both the highest number (2,519) and proportion (22.7 per cent) of female employees, a proportion which was well above the national average'.[44/] The rest of the food processing industry, furniture making, the printing industry, textiles and grain milling were other substantial employers of women in manufacturing (in absolute terms). Table II.6 gives a more detailed breakdown.

Table II.6. Female participation (in manufacturing sub-sectors with at least 100 female employees), 1989

Products	Number of female employees	Percentage share female	Products	Number of female employees	Percentage share female
Printing and publishing	492	30.1	Furniture	451	13.5
Basic chemicals and other chemical products	294	23.4	Beverages	257	12.4
Paper and paper products	130	22.9	Textiles	930	12.2
Wearing apparel	220	22.1	Steel and metal products	240	9.7
Food products	3,752	17.9	Other non-metal mineral products	230	8.5
Tobacco products	114	15.9	Wood and wood products	135	6.8
General and special purpose machinery	262	15.3	Total manufacturing	7,747	15.6

Source: Census of Business Establishments, Uganda 1989, Manufacturing Sector Report, Entebbe, Ministry of Finance and Economic Planning, December 1993, p. 73.

There is a gender gap in education as well: figures from 1986 show that 45 per cent of all students in primary schools were girls, while the equivalent figure for secondary schools was 34 per cent.[45/] The gap in completion is even greater: while 49 per cent of boys completed primary school (itself a small percentage), only 29 per cent of girls did the same.[46/] (Table II.7 provides additional information about female participation in education.) Explaining this, a World Bank report argued that these gaps 'reflect perceptions of women's actual and potential roles in society; the perceived costs and benefits of schooling for daughters versus sons; and the labour requirements of household production'.[47/]

Since 1986, however, the National Resistance Movement has addressed gender issues head on, often in ways unprecedented in sub-Saharan Africa. Politically, there is a ministry responsible for 'Women in Development', and one position at every level of the resistance council (RC) system is reserved for a woman.[48/] Other institutional mechanisms are also being introduced to try to ensure that women's issues are addressed in public policy and resource allocation. Many women's nongovernmental organizations and some donor groups have been encouraging such development. These comments, however, should not mean to suggest that gender equality exists in Uganda: rather, they are meant to show that change, however slow, is occurring.[49/]

Table II.7. Female participation in education, 1970 and 1992

Percentage of age group enrolled in education	1970	1992
Primary	38	71
Primary - female	30	63
Secondary	4	13
Secondary - female	2	..

Source: World Bank, *World Development Report 1995*, Oxford, Oxford University Press, 1995, p. 216.

C. PRODUCTIVITY AND PERFORMANCE

Output

Table II.8 below show the share of value added in the gross output of different industrial sectors at two different levels of aggregation. While the food products sub-sector (the largest in the country) is below the average for the country as a whole, beverages, textiles and tobacco products are well above the Ugandan average.

Table II.8. Share of manufacturing value added in gross output, 1989

Products	ISIC Group	Percentage share	Products	ISIC Group	Percentage share
Food products	151-4	16.1	Rubber products	251	52.0
Beverages	155	47.3	Plastic products	252	36.6
Tobacco products	160	45.6	Other non-metal mineral products	269	37.1
Textiles	171-3	42.3	Basic iron and steel	271	33.2
Wearing apparel	181	43.7	Casting of metals	273	34.3
Leather and leather products	191	31.0	Steel and metal products	281/9	37.8
Footwear	192	44.5	General and special purpose machinery	291/2	21.3
Wood and wood products	201/2	36.7	Electrical machinery	311-4/23	29.2
Paper and paper products	210	24.8	Transport equipment	342/3	50.8
Printing and publishing	221-3	34.4	Furniture	361	32.0
Basic chemicals and other chemical products	241/2	27.3	Total manufacturing		24.4

Source: Census of Business Establishments, Uganda 1989, Manufacturing Sector Report, Entebbe, Ministry of Finance and Economic Planning, December 1993, p. 20.

Labour Productivity

Table II.9 shows that Uganda has vastly different labour productivity across industries - measured in terms of the value added per person employed. In 1989, the figures for the different industrial groups varied from under one-fifth the national average (in general and special purpose machinery) to over six times the average (in the case of tobacco products).

Table II.9. Value added per person employed by industrial group, 1989
(Thousands of shillings)

Products	ISIC Group	Value added per employee	Products	ISIC Group	Value added per employee
Food products	151-4	699	Rubber products	251	556
Beverages	155	1,972	Plastic products	252	1,260
Tobacco products	160	4,296	Other non-metal mineral products	269	321
Textiles	171-3	428	Basic iron and steel	271	994
Wearing apparel	181	461	Casting of metals	273	469
Leather and leather products	191	438	Steel and metal products	281/9	867
Footwear	192	1,069	General and special purpose machinery	291/2	123
Wood and wood products	201/2	340	Electrical machinery	311-4/23	2,338
Paper and paper products	210	568	Transport equipment	342/3	598
Printing and publishing	221-3	292	Furniture	361	389
Basic chemicals and other chemical products	241/2	1,679	Total manufacturing		713

Source: Census of Business Establishments, Uganda 1989, Manufacturing Sector Report, Entebbe, Ministry of Finance and Economic Planning, December 1993, p. 20.

The ratio of compensation to value added is another indicator of labour productivity. (Compensation here is taken to include both cash and non-cash payments to workers.) Table II.10 shows that on this measure, tobacco can be seen as the most productive (with lower values reflecting higher labour productivity) and, of the larger industrial groups, textiles among the least productive. This is not particularly surprising, given the high natural resource input to the former and the large intensity of labour in the latter.

Table II.10. Ratio of compensation to value added by industrial group, 1989

Products	ISIC Group	Ratio	Products	ISIC Group	Ratio
Food products	151-4	0.39	Rubber products	251	0.49
Beverages	155	0.38	Plastic products	252	0.52
Tobacco products	160	0.19	Other non-metal mineral products	269	0.84
Textiles	171-3	0.64	Basic iron and steel	271	0.21
Wearing apparel	181	0.57	Casting of metals	273	0.92
Leather and leather products	191	0.60	Steel and metal products	281/9	0.39
Footwear	192	0.64	General and special purpose machinery	291/2	0.57
Wood and wood products	201/2	0.66	Electrical machinery	311-4/23	0.32
Paper and paper products	210	0.53	Transport equipment	342/3	0.42
Printing and publishing	221-3	1.00	Furniture	361	0.59
Basic chemicals and other chemical products	241/2	0.42	Total manufacturing		0.44

Source: Census of Business Establishments, Uganda 1989, Manufacturing Sector Report, Entebbe, Ministry of Finance and Economic Planning, December 1993, p. 20.

Profitability

Given that much of the manufacturing activity in Uganda was brought under public control during the 1970s, it is difficult to discuss profitability in any meaningful way.[50/] Nevertheless, some observations can be made. Data from the government's census of business establishments for 1989 indicate the ratio of operating surplus to value added in the various different industrial groups (see Table II.11.

Table II.11. Ratio of operating surplus to value added by industrial group, 1989

Products	ISIC Group	Ratio	Products	ISIC Group	Ratio
Food products	151-4	0.47	Rubber products	251	0.49
Beverages	155	0.49	Plastic products	252	0.34
Tobacco products	160	0.77	Other non-metal mineral products	269	0.03
Textiles	171-3	0.26	Basic iron and steel	271	0.78
Wearing apparel	181	0.24	Casting of metals	273	0.07
Leather and leather products	191	0.27	Steel and metal products	281/9	0.52
Footwear	192	0.30	General and special purpose machinery	291/2	0.38
Wood and wood products	201/2	0.20	Electrical machinery	311-4/23	0.55
Paper and paper products	210	0.14	Transport equipment	342/3	0.56
Printing and publishing	221-3	-0.37	Furniture	361	0.35
Basic chemicals and other chemical products	241/2	0.29	Total manufacturing		0.44

Source: Census of Business Establishments, Uganda 1989, Manufacturing Sector Report, Entebbe, Ministry of Finance and Economic Planning, December 1993, p. 27.

From this, it is clear that basic iron and steel and tobacco products earned the greatest operating surplus for every unit of value added. At the other extreme, the printing and publishing industry incurred an operating deficit in 1989.

D. INSTITUTIONAL FRAMEWORK FOR INDUSTRIAL DEVELOPMENT

With the liberalization that has been occurring since 1987, the government has been trying to create an institutional framework conducive to industrial development. To do that, it has had to tear down many of the organization structures, and psychological barriers, that were effectively serving to inhibit, in particular, private sector progress in manufacturing.

Until the late 1980s, for example, Uganda had a series of marketing boards, each concerned with one of the country's key export commodities. These bodies' monopolies have gradually been phased out, or indeed eliminated altogether. For instance, the Produce Marketing Board (which had exclusive export control over five food crops) had its monopoly removed in 1989, while the coffee and cotton marketing boards were fully liberalized in 1991 and 1994 respectively.[51/] Indeed, the former has been converted into a commercial operation in competition with private exporters.[52/]

Within government itself, the Ministry of Trade and Industry is the key organ for industrial policy and development. Headed by a Minister and supported by a Permanent Secretary, it is made up of three directorates (foreign trade, industry and technology, and cooperative and marketing) along with a chief planner and an under-secretary for finance and administration.[53/] In addition, there are four agencies under its responsibility. They are:

- Uganda Export Promotion Council (UEPC): development and promotion of non-traditional exports through dissemination of information, organization of trade fairs, and other marketing assistance.
- Uganda National Bureau of Standards (UNBS): formulation, registration and enforcement of standards; testing and inspection; international and regional harmonization of standards.
- Uganda Coffee Development Authority (UCDA): development of production and export of coffee through quality control, export licensing, technical and financial assistance, and dissemination of information.
- Cotton Development Organization (CDO): development of production and export of cotton through quality control, distribution of seeds, technical assistance, and dissemination of information.[54/]

And, of course, other ministries - for example, the Ministry of Finance and Economic Planning, and the Ministry of Agriculture, Animal Industry and Fisheries - take actions that have consequences for industry and industrial policy.

Moreover, new institutional structures to promote industrial development have emerged in the private sector. Overcoming their instinctive resistance to 'business organization' (natural given Uganda's experiences with private sector repossession), the Uganda Manufacturers' Association (UMA) was set up in 1988. It is the umbrella organization which represents the country's 250 (approximately) manufacturing firms. Funded exclusively by its members, and formally independent of government,[55/] it has become regarded as a 'serious partner in the policy arena representing private sector interests'.[56/] Support from donors has allowed the UMA to staff and operate a Policy Analysis and Development Unit, whose role is 'to strengthen the contribution of the private sector to the formulation of policy in dialogue with Government'.[57/] Also of relevance in the private sector are the National Chamber of Commerce and Industries, and the Uganda Exporters and Importers Association. The latter is headed and financed by leading businessmen in the trade sector, but as of 1994 lacked a powerful secretariat.[58/]

E. OWNERSHIP PATTERNS

At independence in 1962, the 'Uganda Development Corporation (UDC) was a dominant large industry with generous official subsidies; private enterprise was tightly regulated and excluded from the most lucrative activities'.[59/] Moreover, as has already been alluded to above, a trend towards public ownership of industrial activities gathered steam during the late 1960s, particularly in light of the nationalization and partial-nationalization of some large companies. Indeed, by 1969, 'UDC had controlling interests in 36 enterprises and significant minority shareholding in 22 associated firms'.[60/] The following year, the government acquired majority shares in 84 companies.[61/]

The rate and incidence of public ownership increased even more rapidly during the early 1970s. Also as discussed above, Idi Amin expropriated most of the assets of the dominant Asian business class in August 1972. As a consequence, a number of other foreign investors withdrew from Uganda, and their assets were also taken over by the state. The largest companies subsequently stayed in public hands, while many thousands of the smaller businesses were transferred to African tenants.

As a result, most of the country's manufacturing activity was in the possession of the state at the beginning of the 1980s. Though Milton Obote did bring in an Act of Parliament in 1981, designed to return nationalized properties to their rightful owners expelled in 1972 (the Expropriated Properties Act), it was still the case that, when the National Resistance Movement came to power in 1986, 'the government owned more than 150 companies'.[62/] In addition to this tangible legacy - that is, the means of production in the hands of the state - Rita Laker-Ojoke argues that another important legacy of the 1970s and early 1980s was an 'ideological commitment to state intervention in the productive sector to achieve national objectives and "prevent exploitation of the masses by private entrepreneurs"'.[63/]

A shift away from the dominance of public ownership has been a central theme of the post-1987 liberalization programme. Fulfillment of this commitment, however, has been somewhat slower than some would have liked. Although a World Bank-financed Privatization Secretariat finally became operational in 1990, the body to manage the process - that is, the Public Enterprise Reform and Divestiture Programme - was not established until 1993.[64/] Consequently, by June 1995, 34 public enterprises and assets had been divested, while another 11 public enterprises were offered to prospective investors, 25 were under preparation and 18 liquidations were under way.[65/] Table II.12 lists the 13 public enterprises that were divested during the 1994/95 financial year.

Table II.12. Public enterprises divested during 1994/95

Date	Public Enterprise	Divestiture Type	Amount (billions of shillings)
August 1994	Blenders (U) Ltd.	Sale of 41 per cent of government shares	0.53
August 1994	TUMPECO	Sale of 100 per cent of government shares	1.13
August 1994	Hotel Margherita	Sale of assets	0.4
August 1994	White Horse Inn	Sale of assets	0.6
November 1994	Rock Hotel	Sale of assets	0.3
November 1994	Mount Moroto Hotel	Sale of assets	0.04
December 1994	Hima Cement Factory	Sale of assets	20.5
January 1995	Nile Hotel Complex	Joint venture (58% government)	26.9
January 1995	Lira Hotel	Sale of assets	0.25
January 1995	Soroti Hotel	Sale of assets	0.15
May 1995	Acholi Hotel	Sale of assets	0.235
May 1995	Hilltop Hotel	Sale of assets	0.035
May 1995	Elgon Hotel	Sale of assets	0.65
Total			51.72

Source: Government of Uganda, *Background to the Budget, 1995-1996*, Kampala, Ministry of Finance and Economic Planning, June 1995, p. 11.

Explaining this rather slow pace is the fact that the Ugandan government has been loathe to write off the public enterprises' bad debts, but, instead, has tried to rehabilitate many of the companies so that they could be sold as 'going concerns'. Nevertheless, the government's ultimate commitment to the privatization process is unchallengeable. In the 1995/96 budget (delivered in June 1995), the finance minister stated that it was the government's aim to sell 85 per cent of the country's parastatals over the next two years.[66/] Public ownership will only continue in those sectors that are of clear strategic importance (for example, water, electricity and rail transport).[67/]

Where there has been quicker movement in the transition from public to private ownership, however, has been with respect to the returning of those properties expropriated in 1972. By the end of 1994, eight companies had been repossessed by their former Asian owners,[68/] and, more widely, 4,200 properties had been returned (with another 2,500 claims for compensation rather than repossession expected to be met).[69/] E.A. Brett reports that:

> Many of the larger operators, including the Madhvani and Mehta groups, have returned to rehabilitate and rebuild their businesses, while many more businesses and residences are being sold to Ugandans at relatively low prices. This process, which involved considerable political risks given the opposition engendered amongst Ugandan occupiers forced out by the change, has given real credibility to the regime's claim to be making a serious effort to consolidate the rule of law and guarantee property rights.[70/]

F. INVESTMENT PATTERNS

During the 1960s, the ratio of gross domestic investment to GDP in Uganda was approximately 10-15 per cent.[71/] At this time, equivalent ratios characterized the vast majority of developing countries around the world. Uganda's similarities with most other nations in this area, however, ends there. While a number of others have raised their investment to GDP ratios during the past 30 years, the level in Uganda in 1990 (11 per cent) was actually below that in 1965 (12 per cent).[72/]

Of course, given the difficulties experienced during the 1970s and 1980s, this is not particularly surprising. Potential investors - especially those from abroad - were scared off by the activities of the Amin regime during the 1970s. Confidence only began to return in the 1980s, when subsequent governments took action to return appropriated property. Encouragement of foreign investment was given a further boost in 1987, when the Economic Recovery Programme identified it as a key element.

The process culminated in January 1991, with the introduction of a new investment code. It set out 'a general set of investment incentives, guaranteed profit repatriation and provided protection against expropriation of assets'.[73/] The new code also established the Uganda Investment Authority (UIA), a 'one-stop shop' designed to promote and facilitate investment, issue investment licences and certificates of incentives, determine the terms and conditions imposed on investment, and make recommendations to the government on national policies towards investment.[74/] Between July 1991 and July 1994, the UIA received 1,046 applications, and issued approvals for 839 projects.[75/] On paper, these were worth $1.4 billion, and had the potential to generate over 50,000 local jobs in the formal sector.[76/] International confidence in Uganda is certainly growing, as potential investors increasingly come to believe in the country's sustained commitment to reform.

Recent statistics support this claim concerning increased investor confidence. Through the early 1990s, the investment to GDP ratio rose steadily, eventually climbing above 16 per cent (whereas it was as low as 5 per cent in the early 1980s). These numbers, however, should be considered in a broader context, for they nevertheless mean that Uganda still lags behind the average investment to GDP ratio for developing countries as a whole (26.1 per cent between 1987 and

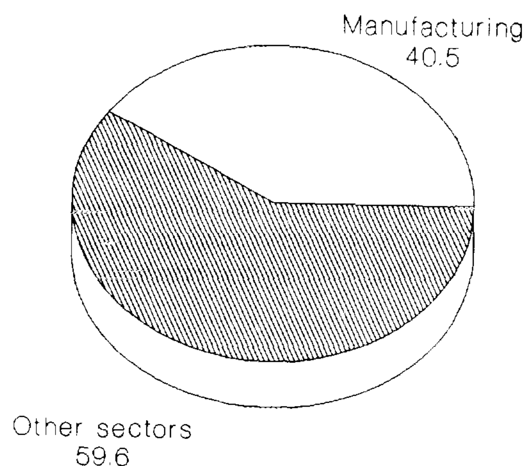
1993) and even behind the average for all African countries (19.6 per cent between 1987 and 1993).[77/] Indeed, it is argued that even 15 per cent is 'barely able to offset depreciation of existing capital';[78/] consequently, it is widely accepted that greater increases are still needed.[79/]

Disaggregating the recent rise in investment, it is noted that most of the increase has been powered by the public sphere. (While they each stood at approximately 8-9 per cent in 1994/95, public investment was 2.6 per cent of GDP in 1986/87, while private investment was already 6.6 per cent.) Given the government's desire to rebuild the country's infrastructure (much of it with donor finance), along with some continuing degree of hesitancy within the private community, this is not particularly surprising.[80/] Data from the most recent year show that the private sector played a much larger role in 1994/95 (with an investment to GDP ratio of 9.1 per cent, as compared with 7.6 per cent for the public sector).

Turning to the domestic/foreign elements of investment, a good deal of the recent attention has been directed towards attracting new capital from outside. Indeed, this is the focus of much of the work of the Uganda Investment Authority, which is described above; moreover, a fair bit of the support for projects to date, like sugar works and textile mills, has come from international sources.[81/] However, the potential value of domestic investment has not been overlooked in Uganda. In the 1995 budget, for example, there were taxation changes that were directed at encouraging *both* domestic and foreign investment in the private sector.[82/]

The sources of recent foreign inward investment generally reflected Uganda's external trade patterns, with the United Kingdom and Kenya both ranking highly.[83/] Investment in manufacturing activities themselves, meanwhile, amounted to 40.5 per cent of all investment commitments between July 1991 and November 1994. Within this, food processing and chemicals dominated, with 43.5 and 26.4 per cent, respectively, of the total.

Fig. II.C. Share of manufacturing in foreign investment commitments, 1993
(Percentage)



G. INDUSTRIAL LOCATION

The location of industrial activities within Uganda can be explained by a combination of climatic and historical references. With respect to the former, the southern part of the country has better natural features for agricultural activity, and all of the country's coffee and tea activities are located there (while the smaller-scale cotton and tobacco growth are found in the north). With respect to the latter, meanwhile, the construction of the Ugandan Railway during the colonial period consolidated the role of the southern half of the country in Ugandan industrial development. As a result, at 'the start of the 1970s, almost 80 per cent of the industries and 75 per cent of the wage labour force was located in the south, with Kampala itself accounting for half of the southern share'.[84/] The subsequent devastation in the north, caused by the civil war and unsettled border conditions, did little to encourage more balanced regional development. The development of the modern road network in the shadows of the decreasingly-used railway further consolidated the south, and in particular the Kampala-Jinja axis, as the country's main industrial artery. A 1983 government document found that 'the majority of enterprises (excluding agro-industries) are located in the Buganda region, particularly in Kampala (330 firms), Mpigi (69 firms) and Mukono (38 firms). In the eastern region, most industrial establishments are located in Jinja (65 firms), Mbale (47 firms) and Tororo (63 firms). In the northern region, Lira is the main industrial centre with about 14 firms.'[85/]

The government, however, has declared that it attaches great importance to more balanced regional development (for broader economic development would inevitably encourage political stability),[86/] and a number of measures to encourage upcountry investment have recently been announced. For instance, in the 1994/95 budget, a 100 per cent depreciation provision was introduced, 'with a view to encouraging investment outside existing urban areas. All investment categories ... are covered by this scheme.'[87/] Recent improvements in the region's key road network (that is, the Northern Corridor route) may further spur more balanced regional development.[88/] In any case, the stability (both actual and perceived) of Uganda's neighbours will be a key determinant of the prospects for success of these policies.

H. ENVIRONMENTAL ISSUES

Land-related issues, as a set, constitute the major environmental challenge in Uganda. Within this rather broad cluster of problems, deforestation can be singled out as a particularly serious challenge. The problem has intensified since the mid 1970s, 'with the onset of indiscriminate felling of trees for domestic and industrial use'.[89/] The World Bank reports that the stresses upon the Ugandan environment are most clearly demonstrated by the loss of tropical high forest, 'which has declined from more than 3 million hectares at the beginning of this century, to 1.2 million hectares in 1958, to around 0.7 million ha [in 1993].'[90/] Total deforestation, meanwhile, has been estimated at 3.4 million ha, or 79 per cent of the country's forests.[91/] More generally, the years of civil disorder exerted 'a clear environmental cost' upon the country - 'Uganda's wildlife, forests, fish, grazing lands and other natural resources are in danger of being overused, polluted and driven to extinction'.[92/]

Although the level of manufacturing activity is such that pollution - the more 'traditional' environmental concern - is not yet a major problem for Uganda,[93/] and certainly not a priority, the manufacturing sector does not escape the consequences of a deteriorated environment. Because so much of Uganda's manufacturing is derived from the land (primarily crops for the food processing industries), the country must use its natural resources sustainably if it is to increase its manufacturing base.

Since the late 1980s, the Ugandan environment has received greater support, from both national and international institutions. At the national level, a Ministry concerned with Environmental Protection was formed in 1986.[94/] Additionally, the government launched, in 1988, a

'rehabilitation programme ... with strict regulations for the protection and management of existing natural and planted forests and woodlands'.[95/] In 1994/95, moreover, a National Wetlands Policy was approved, a National Biodiversity Conservation Strategy initiated and a National Environment Management Bill passed.[96/] Government is also trying to sensitize the country's peoples with regard to the importance of environmental preservation and sustainable development. For instance, wildlife protection is being encouraged, which in turn could support a potentially-lucrative ecotourism industry.[97/]

Internationally, meanwhile, the World Bank has assisted in the development of Uganda's National Environmental Action Plan. Other international agencies are also helping in the protection of the country's natural resources. The Global Environment Facility, for example, is supporting a project to manage the Bwindi Impenetrable Forest and Mgahinga Gorilla National Parks (along with the conservation of their biodiversity).[98/] More generally, Uganda, like other developing countries, qualifies for concessional assistance under a variety of international environmental agreements. These present significant opportunities, both for the promotion of sustainable development in Uganda and for foreign investment activities that can advance the same.

Given the correlation between environmental stability and economic performance in Uganda,[99/] along with the increased attention now being paid to environmental issues by both the government and the international community, it is certainly the case that pressures for the adoption of environmentally-friendly processes in the country's industry are bound to increase. This is no bad thing: it will ensure that Uganda's industrial development takes due regard of the country's natural resource base and thereby augments its own sustainability.

I. TRADE IN MANUFACTURES

Imports

As an essentially resource-based economy, Uganda has long been dependent upon imports to satisfy its demand for manufactures.[100/] In all but two of the years between 1975 and 1993, manufactured goods made up over 90 per cent of all imports (see Table II.13). In 1993, the latest year for which data are available, the figure stood at 91 per cent.

Table II.13. Share of manufactures in total imports, 1975-1993
(Percentage)

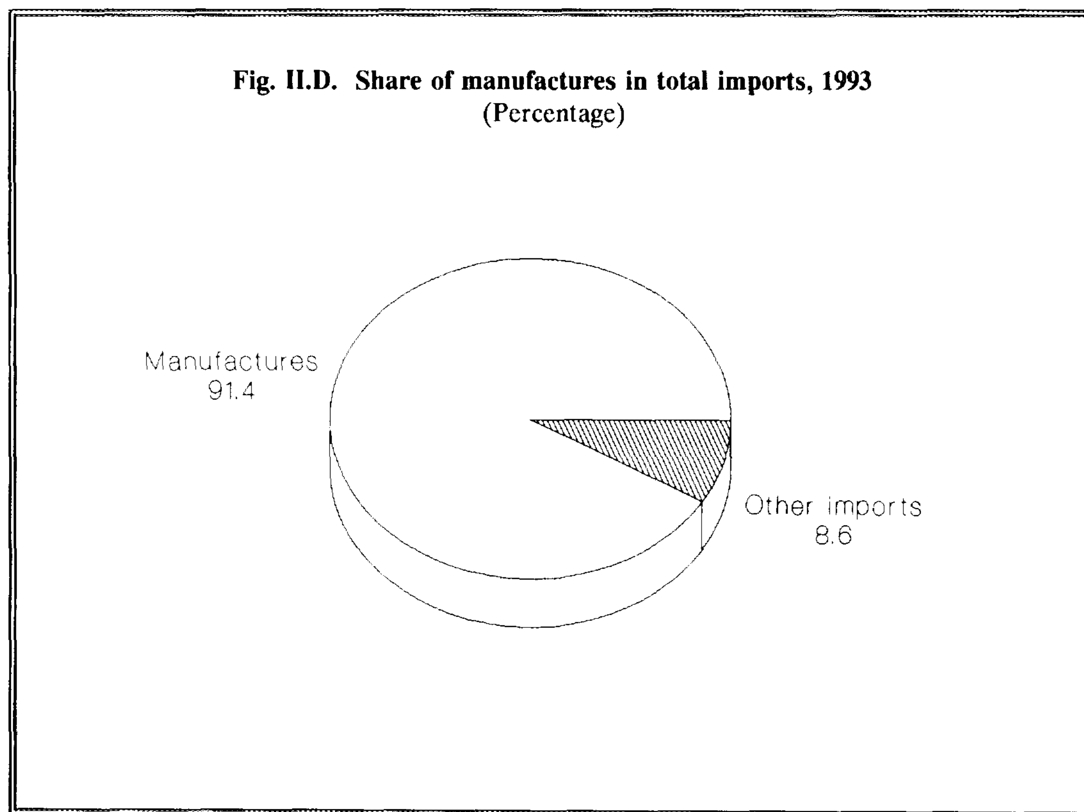
Year	Manufactured goods	Capital goods	Processed foods
1975	96.23	38.42	3.51
1976	96.00	23.60	4.76
1977	96.65	36.20	4.06
1978	97.11	48.16	2.85
1979	86.31	22.20	8.31
1980	92.75	23.48	10.26
1981	91.44	26.26	11.83
1982	94.21	27.35	6.82
1983	95.54	27.27	7.57
1984	95.94	23.25	6.49
1985	94.29	27.6	75.48
1986	94.43	30.27	7.07
1987	92.70	37.57	6.78
1988	88.62	32.83	5.35
1989	92.56	46.79	4.37
1990	94.18	40.75	5.42
1991	94.28	32.91	4.83
1992	90.56	26.04	6.95
1993	91.39	34.55	10.14

Source: UNIDO.

The composition of manufactured imports, meanwhile, has remained relatively consistent. The dominance of machinery and equipment is most noticeable - it usually made up almost half of all manufactured imports (see Table II.14). The chemical industry has usually ranked second in value, while processed foods, and textiles and clothing have usually been third and fourth (though basic metals and iron and steel have occasionally surpassed one or both). The government's census offered some information about import dependency:

> Naturally enough, the majority of manufacturers whose purchases during 1989 were mainly imported goods were not associated with the food processing and other agro-based activities. The main importing industries included those involved with production of radio and television equipment and of chemicals for which 99 per cent of all purchases were of imported goods. Other industries for which imports constituted 90 per cent or more were steel (97 per cent) , plastics (94 per cent), paper and printed products (94 per cent) and fabricated metal products (90 per cent). However, beverages and dairy products manufacturers purchased substantial amounts of imports which made up about 66 per cent of their purchases. Imports by coffee processors and grain millers were also of significant value at 2,952 and 2,111 million shillings respectively, but that constituted a much lower proportion of their purchases.[101/]

Fig. II.D. Share of manufactures in total imports, 1993
(Percentage)



Kenya, the United Kingdom and Japan were the top three origins of imports; the European Union (28.3 per cent of all imports), closely followed by the (former) PTA (26.8 per cent), were the top two regions.

Table II.14. Composition of manufactured imports by major product category, 1975-1993, selected years (percentage share)

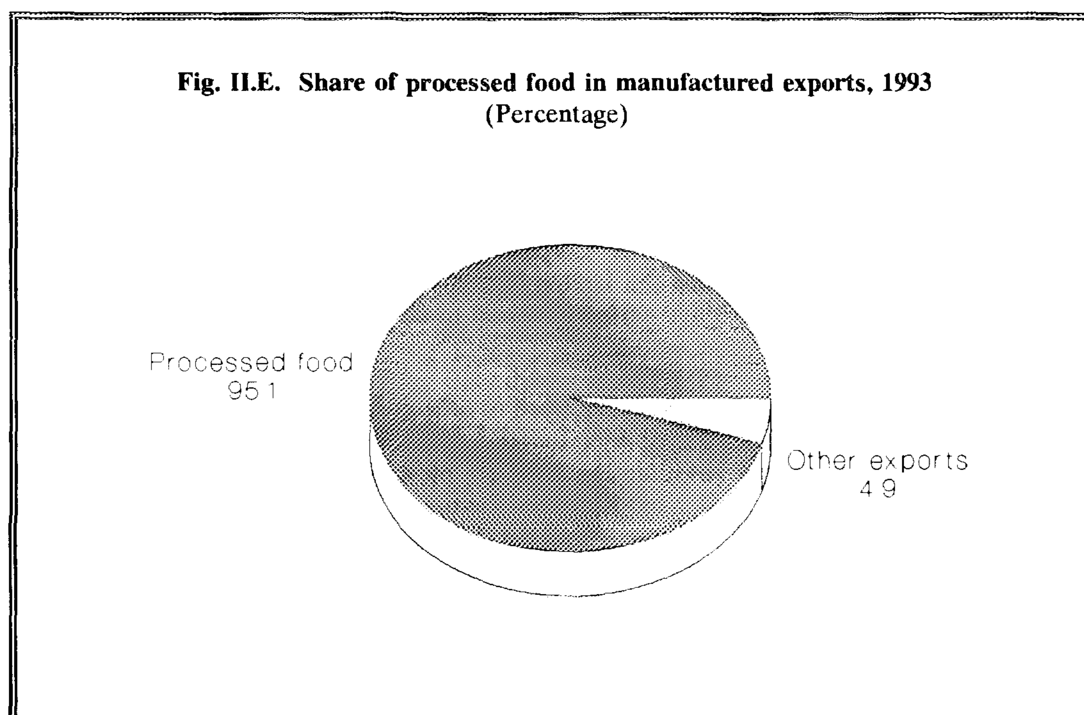
Commodity group	1975	1980	1985	1990	1991	1992	1993
Total imports of manufactures ($ thousand)	125,135	369,749	231,794	472,731	359,059	298,845	238,213
Processed foods	3.65	11.06	5.81	5.76	5.13	7.68	11.10
Textiles and clothing	11.62	5.87	6.54	7.26	9.36	7.67	6.16
Wood products, furniture	0.29	0.79	0.75	1.33	0.59	1.06	0.79
Paper, printing, publishing	4.83	3.84	7.28	2.96	2.74	3.15	2.87
Chemical industry	15.76	38.66	30.12	18.81	21.36	23.15	17.11
Non-metallic products	2.07	0.88	2.68	1.71	2.13	3.60	0.85
Basic metals and iron and steel	6.21	1.84	5.12	3.42	6.98	8.39	3.17
Machinery and equipment	54.59	36.59	41.32	57.72	51.21	44.39	57.20
Miscellaneous products	0.98	0.45	0.40	1.02	0.51	0.92	0.75

Source: UNIDO.

Exports

Since the 1950s, coffee has been Uganda's most important export. Moreover, it was one of the goods that was able to survive the difficulties of the 1970s - in 1981, for example, coffee accounted for 94.5 per cent of all export revenue (and a staggering 98.8 per cent of all manufacture exports).[102/] When, however, the International Coffee Organization's export quota agreement collapsed in 1989, the volume and value of Uganda's coffee exports fell dramatically.

Fig. II.E. Share of processed food in manufactured exports, 1993
(Percentage)



Non-traditional exports (that is, apart from coffee, cotton, tea and tobacco) have increased during the past few years. Those that earned more than $1 million in 1993 were: maize, beans, fish and fish produces, cattle hides, sesame seeds and soap. Indeed, the share of non-traditional exports in total exports increased from 22 per cent in 1992 to 34 per cent in 1993.[103/] Full details of Uganda's manufacturing exports are laid out in Table II.15. This rise in non-manufactured exports

is clear, as manufactured goods made up only 77 per cent of all exports in 1993. Within exports of manufactures, however, processed foods continue to dominate, regularly accounting for more than 95 per cent of the total. Finally, the main recipients of Uganda's goods are the developed markets of the European Union (49.1 per cent of all exports, reflecting these countries' high demand for coffee).

Table II.15. Composition of manufactured exports by major product category, 1975-1993, selected years
(Percentage share)

Commodity group	1975	1980	1985	1990	1991	1992	1993
Total exports of manufactures ($ thousand)	225,610	448,259	367,366	190,583	154,929	154,710	109,848
Processed foods	95.34	99.19	98.70	98.58	98.40	94.05	95.10
Textiles and clothing	0.10	0.23	0.09	0.64	0.14	0.63	0.93
Wood products, furniture	0.02	0.01	0.01	0.00	0.02	0.01	0.01
Paper, printing, publishing	0.00	0.00	0.00	0.02	0.01	0.03	0.00
Chemical industry	0.07	0.10	0.44	0.16	0.13	0.24	0.22
Non-metallic products	0.02	0.00	0.00	0.00	0.01	0.01	0.00
Basic metals and iron and steel	4.26	0.30	0.00	0.05	0.07	0.01	0.00
Machinery and equipment	0.19	0.16	0.40	0.54	1.20	4.90	3.60
Miscellaneous products	0.01	0.01	0.36	0.01	0.02	0.11	0.12

Source: UNIDO.

J. THE ROLE OF INTERNATIONAL COOPERATION

As part of its programme for economic restructuring, Uganda has received significant assistance from the international community. The International Monetary Fund disbursed resources totalling SDR318.8 million (about $446.8 million) between 1987 and early 1994. Over the same period, the World Bank Group disbursed about $1.4 billion[104/] - though most of this was under the auspices of the International Development Association, $21.7 million was invested in the private sector through the International Finance Corporation.[105/] Other international organizations that have been active have included the United Nations Development Programme, which has, along with the World Bank, provided advisory support to the (former) Ministry of Planning and Economic Development.

Bilaterally, meanwhile, Table II.16 shows the flows of official development assistance to Uganda from those countries (and international organizations) with the largest such programmes. From this, it is clear that the United Kingdom has given the most over the past five years, though in 1993 four countries - that is, the United Kingdom, Germany, the United States and Denmark - each gave about $50 million. Given that official development assistance represented 19 per cent of GDP in 1993,[106/] the influence of donor governments and the international agencies is undeniable. The Economist Intelligence Unit argues that this aid was 'responsible for sustaining an increasing trade gap at a time when a prolonged slump in world coffee prices brought a protracted decline in exports until 1994.'[107/] These aid flows served as a timely assistance. However, for its part, Uganda's clearly-consistent commitment to its programme of economic restructuring has effectively made the country a 'most-favoured-aid-receiving nation'.[108/] Notwithstanding the growing pressures upon aid budgets worldwide, Uganda should be able to continue to benefit from international donor assistance.[109/]

Table II.16. Net receipts of official development assistance from selected countries and international organizations, 1989-1993
($ million)

Country/international organization	1989	1990	1991	1992	1993
USA	20.0	30.0	35.0	22.0	57.0
United Kingdom	39.8	35.5	51.0	40.5	54.7
Germany	19.9	27.0	34.2	23.0	54.3
Denmark	15.8	25.4	32.4	37.1	45.4
Sweden	16.3	14.5	34.3	29.0	16.6
IDA	91.0	191.0	135.0	152.9	135.1
EU	35.7	35.2	29.3	155.7	40.2
ADF	21.4	23.2	24.2	34.6	32.5
IMF	48.5	77.9	78.1	53.2	-5.6

Source: OECD, Geographical Distributionof Financial Flows to Aid Recipients,Disbursements,Commitments,Country, Indicators, 1989-1993, Paris, 1995, p. 195.

The Lomé Convention - the trade and aid agreement between the European Union and 70 African, Caribbean and Pacific states - is another set of international links which are important for Uganda. Under the terms of the agreement, all exports enter the EU market free of customs duties and quantitative restrictions (with the exception of those goods covered by the Common Agricultural Policy). Uganda has also taken advantage of other forms of technical and financial assistance under the terms of the Lomé Convention - including grants for the stabilization of export earnings. The trade is primarily made up of agricultural products going north (from Uganda to Europe) and manufactured goods going south (from Europe to Uganda).[110/]

Uganda is also a participant in regional organizations. It is, for instance, a founding member of the Common Market for Eastern and Southern Africa (COMESA). This body, which came into existence in December 1994, is the successor organization to the Preferential Trading Area for Eastern and Southern African States (PTA). COMESA is primarily concerned with the greater liberalization of trade in the region, and has longer-term ambitions for the free movement of capital, labour and services, along with cooperation in a variety of economic areas. Though it is institutionally rather weak, trade within the region between 1982 and 1992 still grew more quickly than the growth of total trade of member countries (10.1 per cent annually compared with 7.4 per cent).[111/]

Uganda, Tanzania and Kenya are also considering the possibility of greater economic cooperation amongst themselves. Reviving memories of the East African Community (institutional relations among the three which collapsed in 1977), a 'Commission for East African Cooperation' was recently established. (Its secretariat began work in April 1995, headquartered in Arusha, Tanzania, and the Commission itself was inaugurated by the three countries' presidents in March 1996.) Priority areas of cooperation and coordination among the three countries have been identified as to include: 'fiscal and financial policies; immigration controls; tariffs, customs procedures and other trade barriers; standards; air, road, raid and water transport'.[112/] With Uganda's international outlook, it is virtually inevitable that international links will be important for the country's development prospects.

NOTES TO CHAPTER II

1/ E.A. Brett, *Structural Adjustment in Uganda, 1987-94*, London, Development Studies Institute, London School of Economics, Working Paper No. 95-02, November 1995, p. 38. (This is reprinted in P. Engberg-Pedersen *et al.* (eds), *Limits of Adjustment: Structural Adjustment in Africa, 1986-94*, London, James Currey, 1995.) A significant number of Asians (primarily Indians) came to Uganda to work on the colony's railway.

2/ E.J. Stoutjesdijk, *Uganda's Manufacturing Sector*, East African Publishing House, Nairobi, 1967, p. 20.

3/ United Nations Development Programme, *Uganda: Development Co-operation, 1991 Report*, UNDP, New York, 1993, p. 18.

4/ Robert L. Sharer *et al.*, *Uganda: Adjustment with Growth, 1987-94*, IMF, Washington, D.C., 1995, p. 1.

5/ UNIDO, Uganda Briefing Note, Vienna, November 1994.

6/ *Ibid.* The UNIDO Briefing Note further notes that manufacturing 'provided the domestic market with adequate supplies of basic goods and there was surplus production for export, most notably in textiles and sugar'.

7/ E.A. Brett, 'Adjustment Policy and Institutional Reform: Rebuilding Organizational Capacity in Uganda', in P. Langseth *et al.*, *Uganda: Landmarks in Rebuilding a Nation*, Fountain Publishers, Kampala, 1995, p. 32.

8/ Between 1971 and 1981, the number of medium- and large-scale factories fell from 50 to 35, while the number of small-scale ones declined from 870 to 418, *Uganda Briefing Note, op. cit.*

9/ Vali Jamal, *Country Profile: Uganda*, International Labour Office, Employment Department, Occasional Report No. 1, Geneva, 1995, p. 8. The Economist Intelligence Unit puts the figure even lower -- at only 5 per cent (Economist Intelligence Unit, *EIU Country Profile: Uganda 1995-96*, London, 1995, p. 12).

10/ Jamal, *op. cit.*, p. 23.

11/ *Ibid.*

12/ Economist Intelligence Unit, *op. cit.*, p. 25.

13/ *Ibid.*, p. 13.

14/ Sharer et al., *op. cit.*, p. 11.

15/ Brett, *Structural Adjustment, op. cit.*, p. 38.

16/ UNIDO, Uganda Briefing Note, *op. cit.*

17/ World Bank, *Uganda: Agriculture*, Washington, D.C., 1993, p. 13.

18/ Economist Intelligence Unit, *op. cit.*, p. 32.

19/ *Ibid.*, p. 25.

20/ UNIDO, *The Indiciative Industrial Plan (IIP) for the Government of Uganda,* Part I, Vienna, March 1994, p. 41.

21/ *Census of Business Establishments, Uganda 1989, Manufacturing Sector Report*, Ministry of Finance and Economic Planning, Entebbe, December 1993, p. 16.

22/ *Ibid.*, p. 3.

23/ Quoted in World Trade Organization, *Trade Policy Review: Uganda 1995,* Volume I, Report to the Secretariat, Geneva, October 1995, p. 72.

24/ Jamal, *op. cit.*, p. 11.

25/ World Bank, *Uganda: Growing Out of Poverty*, Washington D.C., 1993, p. 90.

26/ *Ibid.*, p. 91.

27/ *Ibid.*, p. 90.

28/ The National Manpower Survey, quoted in World Bank, *Uganda: Growing Out of Poverty*, p. 90.

29/ Government of Uganda, *Background to the Budget, 1995-1996*, Ministry of Finance and Economic Planning, Kampala, June 1995, p. A50.

30/ 'Coffee processing with 11,097 employees was by far the largest single manufacturing industry in terms of numbers employed.' (*Census of Business Establishments, op. cit.*, p. 16).

31/ Sharer *et al.*, *op. cit.*, p. 14.

32/ Quoted in Brett, *Structural Adjustment, op. cit.*, p. 47. Additionally, it is reported that 43 per cent of rural women and 28 per cent of rural men are functionally illiterate (World Bank, *Uganda: Agriculture, op. cit.*, p. 36).

33/ Government of Uganda, *op. cit.*, p. 4.

34/ *Ibid.*, p. A8.

35/ *Ibid.*, p. A60.

36/ Cited in United Nations Development Programme, *op. cit.*, p. 31.

37/ Government of Uganda, *op. cit.*, p. A40.

38/ *Ibid.*, p. A40.

39/ World Bank, *Uganda: Growing Out of Poverty, op. cit.*, p. 111.

40/ For a general exploration, see H.M.K. Tadria, 'Changes and Continuities in the Position of Women in Uganda', in Paul D. Wiebe and Cole P. Dodge (eds.), *Beyond Crisis: Development Issues in Uganda*, Makerere Institute of Social Research, Kampala, 1987, pp. 79-90.

41/ World Bank, *Uganda: Growing Out of Poverty, op. cit.*, p. 91.

42/ Jamal, *op. cit.*, p. 5.

43/ World Bank, *Uganda: Growing Out of Poverty, op. cit.*, p. 91.

44/ *Census of Business Establishments, op. cit.*, p. 18.

45/ UNESCO, *Statistical Yearbook 1994,* Paris, 1994.

46/ Economist Intelligence Unit, *op. cit.*, p. 19.

47/ World Bank, *Uganda: Social Sectors*, Washington, D.C., 1993, p. 6.

48/ World Bank, *Uganda: Growing Out of Poverty, op. cit.*, p. 39.

49/ See, generally, World Bank, *Uganda: Growing Out of Poverty, op. cit.*, Chapter 3.

50/ Even in the 1960s, it is argued that any profits that were gained by state companies 'were not due to efficiency but protection' (Brett, 'Adjustment Policy', *op. cit.*, p. 32).

51/ Brett, *Structural Adjustment, op. cit.*, p. 20.

52/ Sharer *et al.*, *op. cit.*, p. 11.

53/ World Trade Organization, *op. cit.*, p. 19.

54/ *Ibid.*, p. 18.

55/ *Ibid.*, p. 19.

56/ Tim Lamont, 'Economic Planning and Policy Formulation in Uganda', in Langseth *et al.*, *op. cit.*, p. 20.

57/ *Ibid.*

58/ *Ibid.* The National Farmers Association is also growing in strength after donor support has facilitated the establishment of an office and secretariat (Lamont, *op. cit.*, p. 20).

59/ Brett, 'Adjustment Policy', *op. cit.*, p. 31.

60/ *Uganda Industrialization Policy and Framework 1994-1999*, Ministry of Trade and Industry, Kampala, November 1994, p. 2.

61/ Charles Harvey and Mark Robinson, *The Design of Economic Reforms in the Context of Political Liberalization: The Experience of Mozambique, Senegal and Uganda*, IDS Sussex Discussion Paper 353, Brighton, November 1995, p. 60.

62/ Brett, *Structural Adjustment, op. cit.*, p. 21. He goes on to note that '... almost all of which were being funded directly or indirectly by government'.

63/ Rita J. Laker-Ojoke, 'Managing Input Supplies for Small Farmers in Uganda: A Problem of Institutional Change', in Langseth *et al.*, *op. cit.*, p. 40.

64/ In 1995, it was restructured into two units: the Privatization Unit (to handle all matters related to divestiture) and the Parastatal Monitoring Unit (to monitor financial flows to parastatals). Additionally, a 'Minister of State for Finance (Privatization) was appointed as the responsible Minister for Privatization'. (Government of Uganda, *op. cit.*, p. 11.)

65/ Government of Uganda, *op. cit.*, p. 11. At the end of 1994, 42 mining and manufacturing public enterprises were scheduled to be privatized or liquidated. World Trade Organization, *op. cit.*, p. 56 provides a complete list.

66/ Cited in Economist Intelligence Unit, *op. cit.*, p. 14.

67/ World Trade Organization, *op. cit.*, p. 31.

68/ Brett, *Structural Adjustment, op. cit.*, pp. 21 and 22.

69/ 'A Mixed Welcome for Uganda's Asians', *The Economist*, 8 July 1995, p. 64.

70/ Brett, *Structural Adjustment, op. cit.*, p. 22.

71/ World Bank, *Uganda: Growing Out of Poverty, op. cit.*, p. 61.

72/ *Ibid.*, p. 61.

73/ World Trade Organization, *op. cit.*, p. 28.

74/ *Ibid.*, p. 28.

75/ *Ibid.*, p. 29.

76/ *Ibid.*, p. 32.

77/ Sharer *et al.*, *op. cit.*, p. 12.

78/ Harvey and Robinson, *op. cit.*, p. 26.

79/ Planned privatizations (see Section E, above, of this chapter) will provide a spur to further investment in the future.

80/ Sharer *et al.*, *op. cit.*, p. 12.

81/ United Nations Development Programme, *op. cit.*, p. 26.

82/ The UIA reported that 410 projects, which were valued at $611 million, had been proposed by local operators (quoted in World Trade Organization, *op. cit.*, p. 32).

83/ One anomaly of note is that Sudan's high ranking of foreign inward investment is not replicated in the trade figures.

84/ Jamal, *op. cit.*, p. 1.

85/ UNIDO, *A Guide to Investing in Uganda*, Second Edition, Vienna, 1993, p. 48.

86/ Jamal, *op. cit.*, p. 6.

87/ Cited in World Trade Organization, *op. cit.*, p. 55.

88/ Economist Intelligence Unit, *op. cit.*, p. 21.

89/ United Nations Development Programme, *op. cit.*, p. 25. The use of wood as building poles, fuelwood and charcoal are three specific examples. With respect to the latter two, recognize that oil and electricity (primarily hydroelectric power) contribute only 10 per cent to the country's total energy requirements (World Resources Institute, *World Resources 1994-95*, Oxford University Press, Oxford, 1994, p. 334). Consequently, the demand upon the country's resource base in considerable.

90/ World Bank, *Uganda: Social Sectors, op. cit.*, p. 17.

91/ World Resources Institute, *op. cit.*, p. 320.

92/ World Bank, *Uganda: Agriculture*, Washington, D.C., 1993, p. xxvii.

93/ Nevertheless, it is worth recognizing that industrial pollution still exists. For example, a number of manufacturing entities - including breweries, leather tanneries and textile factories - dump large amounts of waste into Lake Victoria.

94/ World Bank, *Uganda: Agriculture, op. cit.*, p. 21.

95/ United Nations Development Programme, *op. cit.*, p. 25.

96/ Government of Uganda, *op. cit.*, p. 15.

97/ Tourism was an important element in Uganda at one time, much of it based around the country's national parks.

98/ Global Environment Facility, *Quarterly Operational Report*, Washington, D.C., GEF, December 1995, pp. 52-53.

99/ 'Because of the importance of rainfed agriculture the performance of the economy from year to year tends to reflect variations in weather conditions. The slow GDP growth of 2.6% in 1991/92, for example, was the result of prolonged drought in many areas of the country, and the favourable rainfall of 92/93 brought a sharp recovery of 7.2 per cent.' (Economist Intelligence Unit, *op. cit.*, p. 15.)

100/ All trade figures should be viewed with caution, for there has traditionally been a good deal of trans-border smuggling in the region. (See, for example, Kate Meagher, 'The Hidden Economy: Informal and Parallel Trade in Northwestern Uganda', *Review of African Political Economy*, No. 47, Spring 1990, pp. 64-83.)

105/ *Census of Business Establishments, op. cit.*, p. 14.

102/ World Trade Organization, *op. cit.*, p. 91.

103/ Economist Intelligence Unit, *op. cit.*, p. 33.

104/ Sharer *et al.*, *op. cit.*, p. 2.

105/ Brett, *Structural Adjustment, op. cit.*, p. 13.

106/ World Bank, *World Development Report 1995*, Oxford University Press, Oxford, 1995, p. 198.

107/ Economist Intelligence Unit, *op. cit.*, p. 16.

108/ Brett, *Structural Adjustment, op. cit.*, p. 12.

109/ In July 1995, it was reported that 'Uganda's foreign aid donors ... indicated their readiness to provide up to US$800 million in aid during 1996. (David Buchan, 'Uganda Secures $800m Aid', *The Financial Times*, London, 22 July 1995, p. 3).

110/ See, generally, World Trade Organization, *op. cit.*, pp. 26-27.

111/ COMESA, *Report of the First Meeting of the Intergovernmental Committee to the First Meeting of COMESA Council of Ministers*, Common Market for Eastern and Southern Africa, 1994. Were the amount of illegal trade (for example, smuggling) to be included, then the figure for intra-region trade might be even higher.

112/ World Trade Organization, *op. cit.*, p. 25. Finally, Uganda, like virtually every African state is a member of the Organization of African Unity (OAU). This organization endeavours the creation of an African Economic Community, with a single market, and a single currency issued by a common central bank.

III. INDUSTRIAL BRANCH PROFILES

A. FOOD PROCESSING AND RELATED AGRO-INDUSTRIES

STAPLE FOOD CROPS

Resource base

Agriculture is the mainstay of the Ugandan economy accounting for about two thirds of GDP, over 90 per cent of all exports and more than 80 per cent of total employment. Most of the Uganda's agricultural production is attributed to over 2.5 million smallholders and about 74 per cent of agricultural production consists of food crop production. The main staple food crops produced and consumed in Uganda are plantains (*matooke*), finger millet, sorghum, maize, beans, cassava, sweet potatoes, groundnuts, rice, wheat and Irish potatoes. The cropping pattern for these crops is largely determined by soils, rainfall and altitude. According to the 1995 *Uganda National Plan of Action for Nutrition*, there are eleven agro-ecological zones which characterize/ represent Uganda's varied agricultural farming systems.

Recent trends

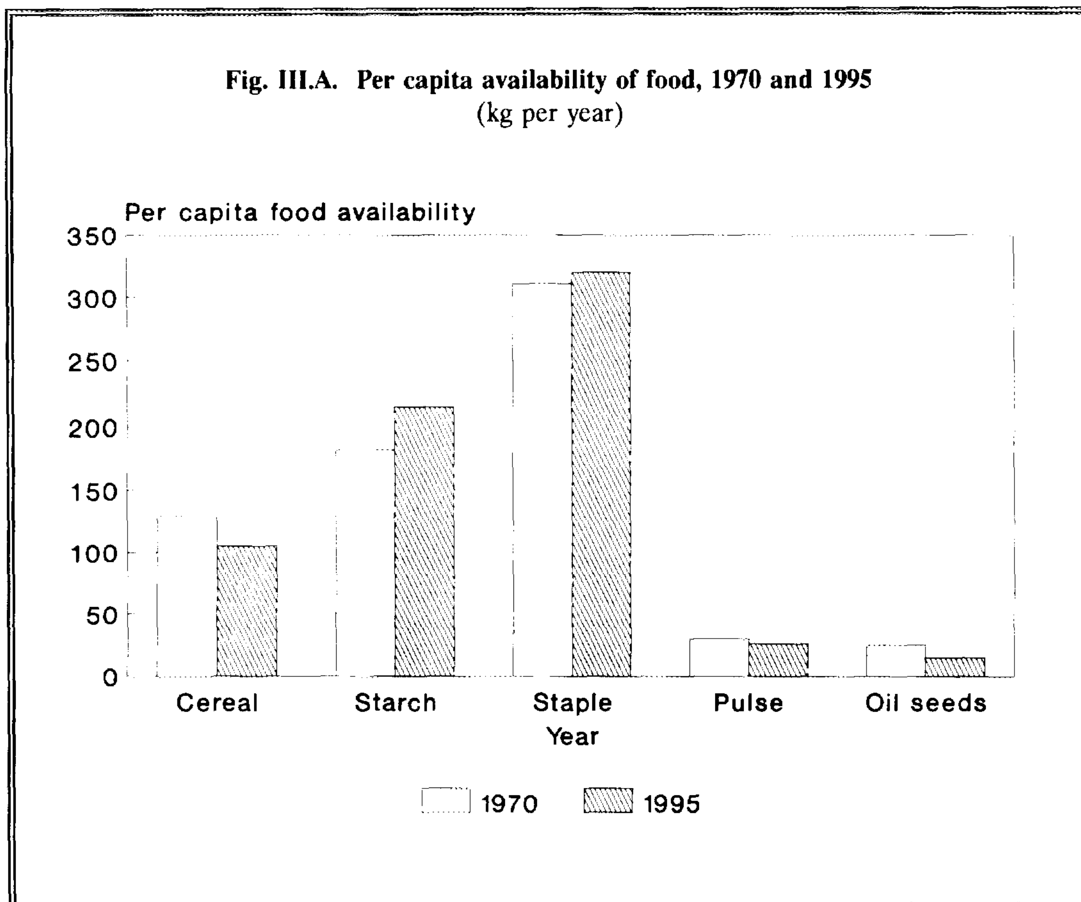
Uganda's food crop production, including major staple food crops, can be classified into four main categories: cereals, root crops, pulses and oil seeds. The country's food production has steadily increased between 1990 and 1993. While agricultural production continues to grow, there is a sharp contrast in growth compared to population increase resulting in a decline in per capita food availability as summarized in Table III.1.

Table III.1. Population and food availability, 1970-1995, selected years
(kg per year)

Year	Population (Thousands)	Per capita food availability				
		Cereal	Starch	Total staple	Pulses	Oil seeds
1970	9,802	129	182	311	30	25
1981	13,015	67	176	243	20	13
1986	15,088	53	165	218	21	16
1987	15,398	59	169	228	22	14
1988	15,798	66	172	238	24	16
1989	16,209	75	175	250	27	17
1990	16,583	71	172	243	28	19
1995	19,262	105	215	320	26	15

Source: Agricultural Policy Secretariat (APSEC).

Fig. III.A. Per capita availability of food, 1970 and 1995
(kg per year)



Bean

The field bean is one of the most widely grown legumes in the country and it remains the chief source of protein in the diet of Ugandans. The current average yield of beans 600 kg/ha is still quite low and most of the produce is consumed domestically. Beans have, however, become increasingly important in the non-traditional export crop. During the period 1991-1993, beans contributed an average of 6.3 per cent to total export earnings. The government supports research programmes and distributes hybrid seeds in order to increase production.

Plantains

Uganda has the largest banana germplasm in the world and yet this resource is not exploited to the full. In order to increase the productivity, the government has commissioned programmes[1/] to support research, disease control and improvement of farming systems.

Cassava

Cassava is the second most important food crop in the region and the most important root crop in Uganda. The crop is grown throughout Uganda and has an outstanding ability to withstand drought and remain long in the soil after physiological maturity. Apart from being a staple food, it is used for starch production. Cassava processing into flour is largely mechanized and consumption is wholly domestic.

Rice

Rice is grown mostly as a cash crop in the swampy area around Lake Kioga. Domestic demand for rice has risen with changes in consumer diet, and the cultivation has expanded over the years. The area under rice in 1994 was estimated at 52,000 ha producing about 62,000 tonnes. Organized rice farming is carried out at the Kibimba Rice Company, the Doho Rice Scheme and the Olweny Swamp Rice Irrigation Project.

Rice processing in Uganda is traditionally carried out manually on the small holder farms, mainly by women. There is one mechanized rice milling facility in Uganda at Kibimba in Eastern Uganda. With rice continuing to be consumed mainly as grain, further processing into flour, noodles or confectionery is extremely limited.

With changes in consumer diet and the population itself continuing to grow at an annual rate of about 2.5 per cent,[2/] the prospects for the rice milling industry remain favourable.

Sweet/Irish potatoes

Sweet potatoes are grown throughout Uganda, the crop is drought resistant, doing well in areas with 750 mm rainfall and above. Irish potatoes are grown mainly in temperate areas at elevations of about 1,800 mm, which are found mostly in Kabale and Mbale districts. Since 1990, the Government has actively promoted the commercial production and processing of sweet potatoes as an alternative to other costly staples such as rice and wheat, and as a raw material for the manufacture of a variety of products, including maltose, glucose and alcohol.

GRAIN MILLING

Recent trends

Grain milling in Uganda is a capital intensive activity involving the processing of five main cereal grains i.e. maize, wheat, rice finger, millet and sorghum. There were over 253 business establishments engaged in grain milling and employing about 3 million people.[3/] There are over 130 established maize mills, including 4 large and 4 medium mills, but most are small. The existing rice, sorghum and millet mills, are mainly small scale, but there is one large rice mill located at Kibimba in Eastern Uganda.

Over years, there has been increase in the demand for the wheat-based products, however the bulk of wheat grain processed in Uganda is imported. Apart from the numerous small-scale processors, there are three main large-scale plants in Uganda engaged in wheat milling. The largest plant is the Uganda Grain Millers Ltd (UGML), which was formerly owned by government, is located in Jinja with an installed capacity to handle 60,000 tonnes of grain per year. In addition to the UGML which accounts for over 90 per cent of the domestic wheat production, there are two smaller privately owned processing plants: Asam Products in Kabale district with an installed capacity of 10,980 tonnes per year and a smaller plant in Fortportal both in western Uganda. The majority of the existing plants currently operate below capacity with the UGML recording a decline in production from 30.8 per cent capacity utilization in 1989 to only 18 per cent in 1994[4/] against a significant increase in the domestic consumption of wheat products (see Table III.2).

Despite this increase in demand, the production levels have not yet improved thus necessitating importation. The per capita consumption of maize is estimated to be 10 kg per month.

Table III.2. Consumption of wheat products and index of industrial production for grain milling industries, 1989-1994

Year	1989	1990	1991	1992	1993	1994
Consumption (Tonnes)	16,160	18,841	14,514	18,016	22,455	23,175
Production Index	139.1	134.7	114.9	104.7	106.9	146.7

Sources: Household and Budget Expenditure Survey 1989/90 and 1993/94; Background to the Budget 1995/96; and Statistical Bulletin No. IP/26.

Uganda's food market

The Uganda food market system has over been influenced/dominated by farmers' associations, government policy and programmes, private enterprises and companies and individuals/ households. Prior to the economic liberalization programme undertaken by government in 1989, the key players in the agricultural marketing in the country were the cooperative movement and the Produce Marketing Board (PMB). The Cooperative movement was meant to provide an institution for effective food marketing with the participation of farmers, while PMB was meant to provide substantial infrastructure for food collection, storage and distribution. These mechanisms were however institutionally eroded due to bureaucracy and mismanagement rendering them inefficient over the years of political strife and economic decay.

As part of a package of measures to liberalize the food marketing operations in the country, the Government of Uganda lifted restrictions and controls on trade and prices. The intention is to expand and open new markets, legalize border trade, and active participation in PTA/WTO. Some of these deliberate policy measures also aimed at diversifying the non-coffee exports including the complete liberalization of the foreign exchange payments which removed the anti-export bias from the official exchange rate, and the abolition of export taxes. As a result of these initiatives, it has attracted increased private investment in the processing and marketing of food products.

In the face of the Government's efforts to liberalize the trade regimes and to promote non-traditional exports (NTE), the country has since 1991 recorded a steady increase in the export of various food items.

The total food exports grew from $22.06 million in 1991/92 to $53.17 million in 1994/95. The largest exports are cereals, increasing from a total value of $11.88 million to about $22.73 million in the same period. This followed by beans and fish amounting to $15.41 million and $15.03 million respectively in 1994 and 1995.

Apart from the above three main food exports, Uganda is currently exporting a variety of other food items. With the move towards regional integration, the Government of Uganda now pays attention to the cross-border and regional trade activities the majority of which are unrecorded.

Constraints and prospects

Uganda's soils and climatic conditions are generally conducive for the production of most of the crops and inputs to the agro-processing industry. Due to poor infrastructure and lack of the intermediary participants, however, farmers are not stimulated to increase production.

Consequently, due to lack of raw material inputs (especially grain milling), most of the existing processing plants operate far below capacity.

In general, Uganda lacks proper storage facilities at all levels; farm, village, regional and national levels. Kampala for example has a deficit storage capacity of 25,000 tonnes while Mbarara, one of the major food supply areas in the country, experiences a shortage of 15,000 tonnes and 14,000 tonnes. Due to lack of storage, private institutions and businessmen frequently buy only small quantities of produce and as such the bulk of the farmers is not marketed and wasted. Investment opportunities therefore exist especially to establish regional and national storage facilities/depots focused on export and domestic distribution. And establishment of buying centres/depots located as near as possible to the production centres to serve as collection centres/ outlets for the farmers especially in the rural areas. Finally, Uganda lacks processing facilities especially near the areas of production. The bulk of the agro-production is therefore sold cheaply unprocessed.

Despite the above constraints, there are growth prospects in agro-production and agro-processing. The country offers investment opportunities in distribution and marketing systems for both the domestic and export markets.

FRUITS AND VEGETABLES

There are a number of small-scale enterprises which process and preserve fruits and vegetables using traditional methods. There are also four well established large-scale processing enterprises in this subsector: Masaka Food Processors,[5/] RECO Enterprises, Elgonia Industries Ltd, and Megatrends Ltd.

The main products include: bottled pineapple juices, passion fruit juice, dried fruit, jams, dried papain enzyme extracted from papaw, tomato ketchup and chili sauce. Most of the products are sold on the local market other than dried fruits and papain powder which are exported.

Currently, the production is far below the existing potential. The principal constraints facing Uganda fruit and canning industry are uncertain availability of appropriate raw materials, poor packaging and poor transport infrastructure to move the highly perishable produce. There are however, opportunities for investors to establish factories for canning pineapple and producing frozen or aseptic fruit juice concentrates from tropical fruits such as passion fruit, mango, pineapple and papaw.

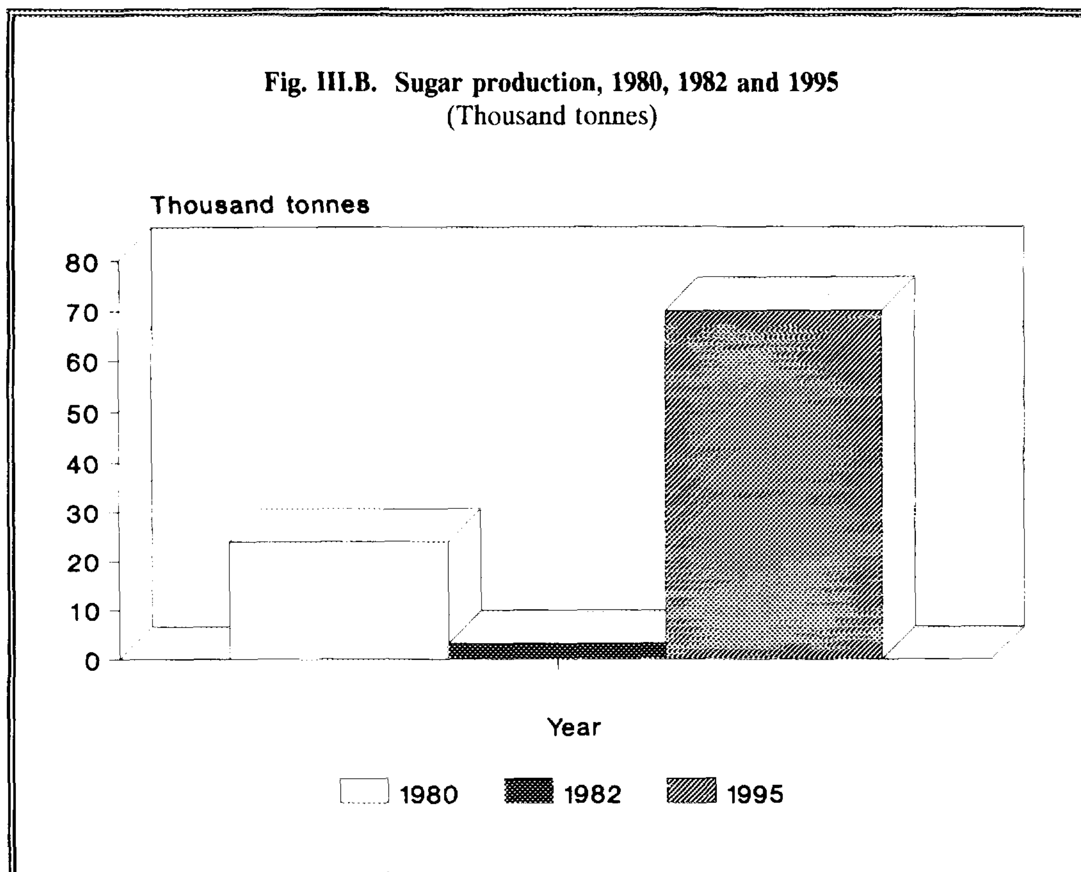
SUGAR

Recent trends

Uganda's sugar subsector comprises mainly three factories and estates namely: Kakira Sugar Works and Sugar Corporation of Uganda Ltd (SCOUL) in Lugazi near Jinja and Kinyara Sugar Works near Masindi. In the past, the bulk of sugar production in Uganda was from Kakira and Lugazi estates with a total production capacity of 140,000 tonnes per year of sugar during 1968-1970. Sugar production peaked at 154,000 tonnes in 1970. Following the expulsion of Asians by Idi Amin's regime, however, sugar production declined, reaching the lowest level of 24,000 tonnes in 1980. During the period between 1980-1988, there was marginal sugar production as the country embarked on a recovery programme. During this period, the country was spending an average of $15 million per year to import about 50,000 tonnes of sugar per year. The country's per capita consumption consequently dropped from 14 kg in the early 1970s to below 5 kgs in the 1980s. Since 1988, however, Kakira and Lugazi Sugar estates were rehabilitated, increasing sugar production significantly to 88,946 tonnes in 1995/96. With the rehabilitation and commissioning of Kinyara Sugar Works in 1996 with a total area of 7,250 ha under sugar, the country now has a total installed processing capacity of more than 150,000 tonnes. These developments have led to growth in the production of sugar from only 3,289 tonnes in 1982 to 70,117 tonnes in 1995. As

a result, there was been a decline in the sugar import bill from $15 million in 1980s to less than $1 million in 1995.

Fig. III.B. Sugar production, 1980, 1982 and 1995
(Thousand tonnes)



SCOUL was formerly a joint venture between the Government of Uganda (51 per cent) and Mehta Group (49 per cent). The enterprise had 8,890 ha as at 1994, when production was 38,000 tonnes. Kakira Sugar Works is also a joint venture between the Government of Uganda (30 per cent) and East African Holdings, the Madhvani Group (70 per cent) with a total area of 12,130 ha under sugar cane. Production as at 1993 was 2,500 tonnes and with 584 out-growers owning an area of 1,400 ha under cane. Kinyara Sugar Works, wholly owned by the Government of Uganda, has recently been rehabilitated.

All three companies manufacture sugar under an integrated farm-factory ownership. The main by-products from the manufacture of sugar are bagasse and molasses. Bagasse is burnt as a fuel in factories. Some of the molasses are converted into alcohol and confectionery. At present, all the sugar produced is for the domestic market, however, production is not yet sufficient to satisfy the demand and about 37 per cent of the Uganda market requirements was met by imports in 1994.

Constraints and prospects

Uganda enjoys a sugar quota of 5,000 tonnes per year under the ACP/EU agreement, which has not been utilized for many years. This opens an opportunity to export surplus sugar in future. Other investment opportunities include: production of refined sugar[6/] for use in industries, e.g., soft drinks and others, production of ethanol from molasses for use in blending operations and utilization of sugarcane by-products.

CASH CROPS

Resource base

While staple foods account for almost three quarters of the total agricultural output of Uganda, the country also produces a wide verity of food and non food cash crops for export. The traditional export crops include coffee, cotton, and tea.

Table III.3. Exports of selected cash crops, 1982-1995

Year	Coffee	Tea	Cotton	Tobacco
1982	349,400	800	3,200	0
1983	346,300	1,200	11,200	900
1984	359,600	3,300	12,100	1,500
1985	348,500	1,000	13,979	400
1986	394,200	3,100	5,086	0
1987	307,535	1,900	4,097	0
1988	265,279	3,079	2,968	58
1989	262,811	3,195	4,020	569
1990	140,384	3,566	5,795	2,821
1991	117,641	6,780	11,731	4,540
1992	95,372	7,721	8,218	4,333
1993	106,775	11,141	5,504	7,016
1994	343,287	11,802	3,590	8,043
1995	384,122	8,725	3,129	7,395

Source: MFEP, *Key Economic Indicators,* 24th Issue, January 1996.

COFFEE

Resource base

Coffee is Uganda's largest single foreign exchange earner. The coffee subsector is based entirely on small holder producers with an average coffee plot of 0.5 - 1.0 ha. There are two types of coffee grown in Uganda: robusta and arabica accounting for 90 per cent and 10 per cent, respectively, of the total production.

The total area currently under coffee is estimated to cover 273,000 ha including 33,000 ha of arabica. In order to increase production and improve quality, the Government of Uganda's research station has produced six improved robusta clones which are being multiplied and distributed to farmers in different locations.

Recent trends

In Uganda, the peak level for coffee production was in 1972 when production reached 213,000 tonnes (3.55 million 60 kg bags). During the 1970s, however, coffee production declined sharply reaching the lowest level of 135,000 tonnes (2.25 million bags) in 1980. Coffee production has since 1980 slowly recovered especially with introduction of reforms in the coffee subsector in 1991.

Since 1991, under the Economic Recovery Programme, the Government of Uganda introduced reforms in the coffee subsector which included liberalization of domestic and export marketing, processing and pricing, removal of stabilization tax and other market distortions. The Government also created the Uganda Coffee Development Authority (UCDA) as a promotional and regulatory body. These reforms, among others, provided incentives to farmers leading to improvements in processing and marketing, competitiveness and efficiency in the subsector.

The Government has also removed the monopoly of the Uganda Coffee Marketing Board in export processing thus attracting over 100 investors presently engaged in coffee processing and export. With price liberalization, the farmers share of the export price has increased from less than 30 per cent to about 60 per cent in 1996. As a result of these reforms and the recent coffee boom, there was significant growth in the annual coffee production from only 2.2 million bags in 1980s to over 4 million bags in 1995/96.

The current production for robusta and arabica coffee is estimated at about 5.02 million and 0.3 million bags, giving an exportable volume of 3.0 million bags and 0.2 million bags respectively. Table III.4 shows the trends in coffee production for clean coffee for the seasons 1990/91 to 1993/94.

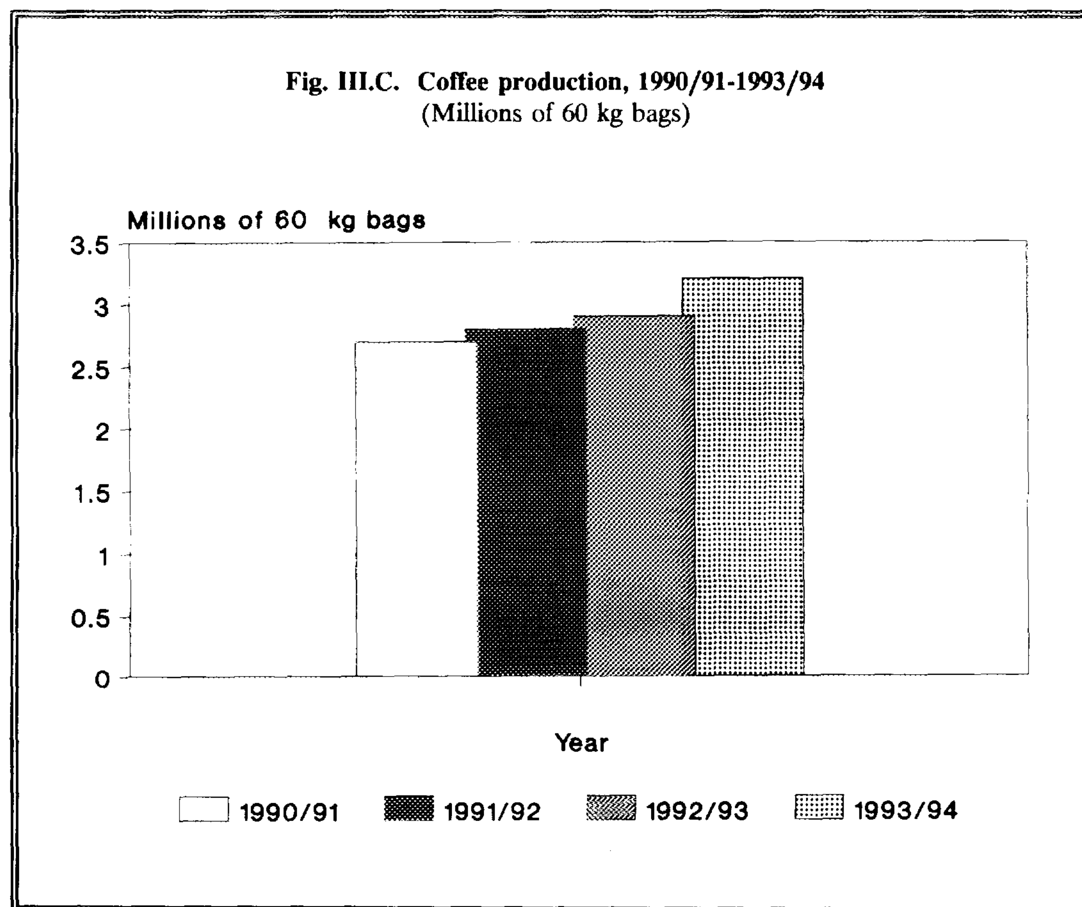
Table III.4. Coffee production, 1990/91 - 1993/94
(Million of 60 kg bags)

Type of Coffee/Season	1990/91	1991/92	1992/93	1993/94
Robusta	2.5	2.6	2.6	2.9
Arabica	0.2	0.2	0.3	0.3
TOTALS	2.7	2.8	2.9	3.2

Source: Uganda Coffee Development Authority (UCDA), Annual Report 1993.

Primary processing is carried out in factories which remove husks, broken and black beans to produce fair average quality. There are about 278 coffee factories of various sizes. Coffee exports contribute 60 per cent of the total export earnings.

Fig. III.C. Coffee production, 1990/91-1993/94
(Millions of 60 kg bags)



Similarly, as a result of the reforms in the coffee subsector, the total production and export value increased from $117 million in 1991/92 to over $402 million in 1994/95. Trends in Uganda's coffee export earnings vary greatly mainly due to international price fluctuations.

Constraints and prospects

The development of Uganda's coffee subsector is largely constrained by the regulatory framework for the liberalized coffee processing and exports which is difficult to enforce. The sector is also hampered by unmitigated coffee price fluctuations in the world market and the poor state of machinery especially in processing factories operating below capacity.

Despite the above constraints, Uganda's coffee subsector offers prospects and opportunities for investments in various areas. These include: production of premium grade instant coffee, production of washed robusta coffee by rehabilitating central pulperies, development of nurseries and new plantations, roasting and packaging of coffee, and utilization of by-products such as black beans and husks.

TEA

Resource base

The structure of tea production in Uganda can be classified into three main categories based on production system and ownership. These are: joint venture estates (with Government of Uganda 51 per cent - private 49 per cent), outgrower estates[7/] who own 9,441 ha under tea, and 39 private estates. The total area planted under each category, production potential and level of production as of 1994 are given in Table III.5.

Table III.5. Tea production, 1994

Category	Planted area (ha)	Per cent of total production	Production potential (Tonnes)	Total production in 1994 (Tonnes)
Joint venture	2,925	14.7	6,447	3,438
Outgrowers/UTGC	9,440	42.9	9,440	1,848
Private Estates	9,306	42.4	19,672	1,628

Source: Agricultural Secretariat.

Recent trends

Tea is the third most important crop in Uganda after coffee and cotton. Peak production was achieved in 1972 with 23,736 tonnes. Production however, declined significantly in the 1970s[8/] and reaches the lowest level of 500 tonnes in 1980[9/] whereas exports declined to the lowest level of 501 tonnes in 1981. During the 1980s, there was moderate recovery in tea production, reaching 13,000 tonnes in 1994. Under the Economic Recovery Programme, most of the tea plantations have been rehabilitated, some privatized and the Custodian Board returned the estates to previous owners. Also under a Small Scale Tea Growers Development programme supported by European Union, the UTGC will be restructured and its tea factories rehabilitated. The total area currently under tea plantations is estimated at 20,500 ha. As a result of these reforms and other initiatives,

tea production has increased from 2,580 tonnes in 1982 to 12,691 tonnes in 1995 and is expected to reach 15,00 tonnes in 1996.

Constraints and prospects

Despite the rapid expansion and rehabilitation in the past five years, the Ugandan tea industry faces a number of constraints. The most serious constraint to tea subsector is high operational costs especially labour costs. There are, however, opportunities. A further constraint is imposed by the potential for rapid spoilage of tea leaves in the tropical weather conditions prevailing in Uganda, and the consequent need to preserve it. This limits the capacity of small-scale tea growers from playing the major role in the industry as suppliers to processing plants because their means of transport are really equipped with the necessary preservation facilities. This is further reflected in the clustered nature of outgrowers next to processing plants. The high investments required for a further expansion of the tea industry notwithstanding, its prospects are favourable. A combination of high tea prices and liberalization have resulted in high farm gate prices.

There are, however, considerable investment opportunities in tea industry which include: private investment in tea growing especially as the government continues to privatize and divest itself from tea production. Also there are opportunities in processing and packaging.

SOFT DRINKS[10/]

Recent trends

Uganda's soft drinks industry consists of four companies: Crown Bottlers Ltd (bottling Pepsi products) with 75 per cent market share and Century Bottling (bottling Coca Cola products) with 21 per cent, Kampala Bottlers (Schweppes products), Uganda Mineral Water and Rwenzori beverages all share the remaining 4 per cent. The installed production capacity of these industries is 19 million crates (24 bottles/crate) per annum but capacity utilization currently stands at 52.6 per cent while it was only 34 per cent and 36 per cent in 1992 and 1993 respectively.

Uganda's per capita consumption of soft drinks per day is at 1.5 litres which is low compared with 3 litres in Tanzania and 10 litres in Kenya. The lower consumption figure in Uganda may be caused by low production levels resulting in high prices. At present, however, there are no exports due to relatively high production costs[11/] and taxes rendering Uganda's soft drinks less competitive on international markets.

Constraints and prospects

The industry faces a number of constraints which include heavily dependant on imports requiring substantial working capital to import inputs, high taxation levels (excise duty at 55 per cent[12/] plus VAT of 17 per cent) and inefficient utility services.

The Ugandan soft drinks industry could exploit the export potential of the PTA region and Zaire where there are no franchise barriers and particularly where Pepsi Cola is not bottled. Other investment prospects include: establishment of glass bottle factory and locally produced refined sugar and carbon dioxide, manufacture of crown corks, introduction of low or no sugar drinks, production of mineral water to meet the growing domestic demand, and production of concentrates locally to substitute for present imports.

LIVESTOCK

Resource base

Uganda's livestock production is an important subsector of the agricultural production contributing about 20 per cent of the total agricultural GDP. Livestock production is an integral part of the farming systems in Uganda: with crop production and animal raring being complimentary activities. According to the latest *Census of Agriculture and Livestock*,[13/] the national population of livestock is estimated at 4.6 million of cattle, 5.2 million of goats, 0.8 million of sheep, 11.3 million of pigs, and 19.2 million of poultry. Based on economic considerations, cattle are the most important livestock in Uganda constituting a mixture of local/indigenous, exotic and improved breeds. The indigenous cattle accounts for 96.6 per cent of the country's cattle stock and are of three types. These are: the Nkedi short horned Zebu, and located in the Central, Northern and Eastern Uganda, the Ankole long horn, mainly found in the South-west of Uganda, the Karamojong variety located in the Northeast of Uganda.

Recent trends

During the 1970s, there were about 562 commercial ranches and 3,000 private commercial diary farms.[14/] Like other sectors of Uganda's economy, however, livestock production especially diary production, also declined during the years of turmoil in the 1970s and early 1980s. With the breakdown of the milk collection centres in the 1980s the country was entirely dependent on imported reconstituted milk. Since 1987, however, with the rehabilitation of the Diary Corporation Plant and milk collection centres, production of processed milk from domestic sources increased. With the liberalization of diary industry, new entrants have invested in milk processing and marketing. The Government of Uganda also implemented the Livestock Services Project (LSP) to improve veterinary and animal health services to small livestock farmers. Other interventions include the introduction of heifers scheme for rural women and improved pasture development programmes. As a result of these measures, cattle numbers have increased at an annual rate of 2.8 per cent from 4.5 million in 1989/90 to 5.23 in 1995/96. Also, milk collection and processing increased from 50,000 litres in 1990 to 14.9 million litres in 1995.

Constraints and prospects

Livestock production even in the small holders is faced with the problem of low productivity, lack of effective marketing system, poor extension services, and lack of processing facilities. As part of the Government of Uganda's privatization programme, the commercialization of dairy industry will entail divestiture by the Dairy Corporation of the milk cooling plants it owns throughout the country. Uganda's livestock industry also offers investment opportunities in the milk production, marketing and processing of diary products.

FISH

Resource base

Uganda is endowed with abundant freshwater resources, and approximately 17 per cent of the total geographical area is covered by water (42,942 sq km). This comprises natural lakes, rivers, dams and swamps. There are over 160 lakes and the largest and most well stocked with fish are Victoria, Kioga, Albert, Edward and George. Fish is a major source of animal protein in the Ugandan diet and about 75,500 families are directly involved in catching fish. In addition, 15,000 people are employed in fish processing, marketing and transportation while another 150,000 people are employed in other fish related activities.

Recent trends

In Uganda, fishing is largely carried out by artisan fishermen using about 18,000 canoes out of which about 2,400 are motorized. The most popular method used to catch fish is by gill netting. The major fish species exploited for subsistence and commercial purpose are: Nile Perch (*Lates*), Nile Tilapia (*Oreochromis*), Herring-Like (*Alestes*), Catfish, (*Bagrus* and *Carias*), Tiger Fish (*Hydrocynus*), Small Pelagic "Sardine" (*Rastrioneobola*), Lungfish (*Protopterus*) and *Haplochromines*. Of the above species Nile Perch and Tilapia are the most popular fishes for domestic consumption as well as for export markets.

Recent trends in fish production indicate a decline mainly due to the presence of water hyacinth in lake Victoria, lake Kioga and River Nile which are the major sources of fish as shown in Table III.6.

Fig. III.D. Total fish catch by lake, 1994
(Thousand tonnes)

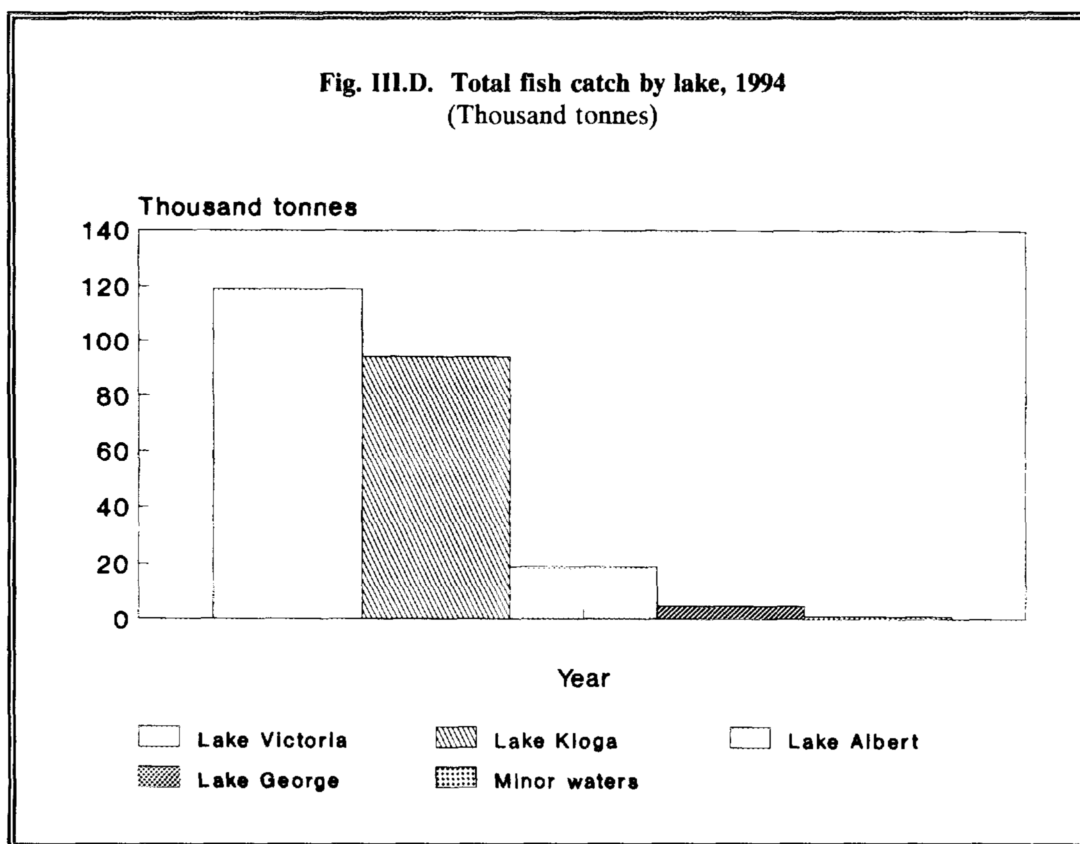


Table III.6. Fish catch by lake, 1994

Water body	Quantity (Tonnes)	Value (Billion Ushs)
Lake Victoria	119,940	21.41
Lake Kioga	94,920	9.49
Lake Albert	19,495	2.11
Lake George, Edward & Kazinga	5,500	0.60
Minor Waters	1,409	0.27
Totals	245,239	34.28

Source: Fisheries Department.

In 1987, the total fish output was 149.7 tonnes rising to 217.4 tonnes in 1995 employing a high level of 500,000 in the fisheries subsector.[15/] In 1994, the subsector accounted for about 4 per cent of the county's GDP with production from the main water bodies. Table III.6 below shows the fish catches by lakes for 1994.

As result of liberalization, there has been a significant increase in the number of fish processing and exporting industries with 20 firms licensed and nine of which are already operational. By 1994, fish processing on an industrial scale was done by eleven companies which used 7 per cent of the national catch. Over 90 per cent of fish processed in Uganda is exported. About 60 per cent is exported in chilled and frozen form with the remainder smocked, sun-dried, salted or fresh. Table III.7 shows the form, tonnage and main export markets for Uganda's fish and fish products.

Table III.7. Main export markets of Uganda's fish products, 1994

Method	Type of fish	Destination	Volume (Tonnes)
Fresh	Tilapia	Kenya	25,037
	Perch	Kenya	25,010
Sun-dried	Perch	Zaire	1,240
	Tilapia	Kenya	715
	Swim-Bladder	Hong Kong	120
Smoked	Tilapia	Kenya	800
	Perch		
Frozen Whole	Perch	Greece	15
Frozen Fillet	Tilapia	Belgium	1
	Perch	UK, Greece	561
Total			53,630

Source: Fisheries Department.

Apart from a short fall in the 1992/93, Uganda's fish industry is one of the fast growing export subsectors. The exports volume grew from 2,400 tonnes in the period of 1992/93, to 5,840 tonnes in 1994/95 representing a value rising from $11.1 million to $15 million respectively.[16/]

Constraints and prospects

Despite its rapid growth during the past five years, the Ugandan fish industry faces a number of constraints to its further growth. The major constraint is imposed by the potential for rapid spoilage of fish catch in the tropical weather conditions prevailing in Uganda and this is aggravated by poor processing facilities thus eroding the quality products. Also, due to unreliable power supply, the fish processors are compelled to incur high overhead costs on the use of thermal electricity. If not remedied, this will curtail Ugandan fish industry's international competitiveness and may hinder fish exports.

B. WOOD AND WOOD PRODUCTS

Resource base

Uganda is endowed with a rich, varied, forest ecosystem and vegetation, attributed to the location in a zone between ecological communities, characteristic of the East African dry savannah, and of the West African rain forests. This is coupled with topographical and climatic variations within the country. The World Resource Institute estimates Uganda's total forest cover to be 6,015,000 ha, of which 765,000 ha is closed forest and 5,250,000 ha is open woodland[17/] which reflect the industry's potential.

Generally, however, Uganda's productive resource base for wood and wood products is largely the natural forests and forest plantations, representing 7 per cent of the total geographical area as shown in Table III.8.

Table III.8. Uganda's forest types and coverage

Forest type	Area (ha)	Per cent of total land area
Productive natural forests	57,600	3.0
Protection forests	500,000	3.75
Savannah woodland forests	422,000	2.05
Soft wood plantations	14,500	0.07
Hard wood plantations	16,500	0.08
TOTAL	1,529,000	7.95

Source: UNDP/PSDP National Strategy and Programme of Action for the Agricultural Sector, 1996.

Other than for Budongo and Mabira, there is no up to date inventories for natural forest resources in the country. The programme for conducting inventories in other natural forest reserves commenced in March 1995 and will last until 1998 and no provisional reports have yet been availed.

The existing coniferous and hard wood plantations are mainly man made ecosystems of both indigenous and exotic tree species. The plantations are managed for the production of industrial round-wood, fuel and posts and poles. Most of the existing coniferous plantations were planted in the 1960s. These plantations have nearly all reached maturity and are likely to become the main source of timber in the future.

Under the Forestry Rehabilitation Project (FRP), the Government of Uganda with assistance from donors, has since 1988 undertaken initiative to improve the forest resource base. Notable among the project's achievements are: planting of new forests by the Forestry Department, new plantings by the private sector (NGOs), enrichment planting (some 4,800 ha) and encroachment planting of 800 ha in the natural forests. There are also proposals to encourage involvement of the private sector in plantation establishment and management.

Recent trends

The major products of Uganda's forestry industry include fuel wood for households and commercial purposes, industrial wood and charcoal. The production of wood and wood products in Uganda has grown over years. Between 1984 and 1994, total output grew from 13.6 to 18.6 million tonnes respectively. Most of Uganda's wood production, however, is non-monetary (79.9 per cent) while the monetary output in only 20.1 per cent of the total production in the above mentioned period.

The monetary and non-monetary contribution of forestry to the GDP of Uganda ranges from 1.2 per cent to 3.0 per cent. There is no adequate and reliable data on the total monetary value of total production of the forestry subsector in Uganda. Details on output trends of the different categories of round-wood timber and charcoal, however, indicate that there has been remarkable growth in production as are given in Table III.9.

Table III.9. Production of round-wood timber and charcoal, 1984-1994
(Thousand tonnes)

Product	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Sawn timber	246	179	129	204	250	248	256	273	295	321	350
Poles	242	262	291	335	381	407	438	464	479	497	516
Fuel wood:											
Household	9,954	10,233	10,522	10,814	11,115	11,432	11,751	12,068	12,400	12,740	13,088
Commercial	1,376	1,414	1,454	1,494	1,536	1,580	1,626	1,674	1,733	1,790	1,847
Industrial	499	473	473	497	548	602	638	691	780	822	866
Charcoal	1,328	1,264	1,264	1,392	1,528	1,448	1,520	1,596	1,692	1,793	1,901
Total	13,645	13,825	14,133	14,736	15,358	15,717	16,229	16,766	17,379	17,963	18,568

Source: MFEP, Background to the Budget 1994/95 and 1995/96.

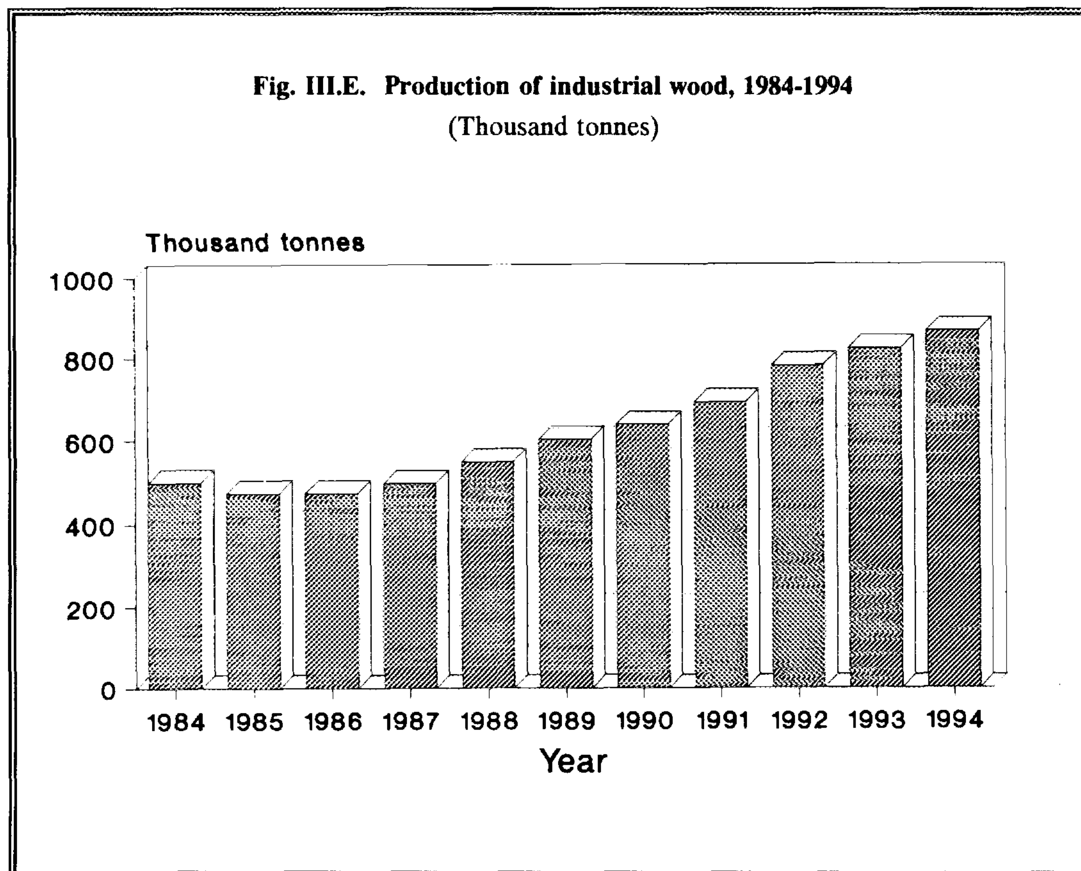
Fuel wood

Fuel wood is the main wood consumption in Uganda, either as firewood or converted into charcoal. Approximately 96 per cent of the total quantity of energy consumed in the country is provided for by woody biomass. The main source of fuel wood are the Savannah ecosystems both within and outside the gazetted areas.

Industrial wood

The main of industrial wood products in Uganda are round wood timber, processed wood products and plywood and block board. Uganda does not produce any pulp, and pulp requirements are imported. An estimated 300,000-400,000 m^3 of wood is utilized in round wood form for building materials, electric and telephone poles. A further 750,000 m^3 is used annually for conversion into industrial products.

Fig. III.E. Production of industrial wood, 1984-1994
(Thousand tonnes)



Saw milling

The major primary wood processing industry, excluding charcoal, is sawmilling with its principal output of sawnwood. The current output of saw mills in Uganda is estimated to be 8,000 m^3 of soft wood and 4,000 m^3 of hard wood per annum. The conversion process from tree to timber is, however, very wasteful with an average recovery of about 20 per cent. This is because most of the conversion is done by pitsawing from natural forests.

The exploitation and processing of forest products in Uganda, is dominated by the private sector. There are ten major saw mills operational in seven natural forest reserves in addition to several small processors. To encourage private investment in National Parks, Uganda National Parks, by April 1996, had awarded four (4) saw mill short term concessions to private investors. These were three in Mt. Elgon and one in Kibale National Parks.[18/] The existing total processing capacity (input capacity) for natural hard wood in Uganda, is estimated at 172,000 cubic meters. The details on capacity and location are given in Table III.10.

Although the domestic output of forestry products especially saw timber, is growing, no wood based panels (WBPs) are made in Uganda. The country depends on imports especially from Kenya for the bulk of its demand for these products. There is no adequate data on the Uganda's imports of wood products. Estimates for selected wood products imported in 1994 are shown in Table III.11.

Table III.10. Natural hardwood processing capacity, 1992

Location	Estimated capacity (cu.m)
Budongo	43,500
Mabira[a/]	20,000
Kalinzu	5,000
Mt Elgon N.P	5,000
Ssese Islands	10,000
Mukono Forest	88,500
TOTAL	172,000

Source: Ministry of Housing, *National Shelter Strategy for Uganda*, Vol. 2, 1993.

a/ Including West Mengo and Private forests.

Table III.11. Imports of selected wood products, 1993

Product	Approx. cu.m	Value (Thousand Ushs)
Plywood	500	120,202
Hardwood	300	65,516
Blockboard	200	17,926
TOTALS	1,000	185,644

Source: Department of Customs.

Constraints

The development of Uganda's forestry industry faces a number of constraints which hinder production and investment. Some of the major constraints include: infestation of pests like Aphids which attacks softwood plantations, inefficient and wasteful charcoal production techniques and poor /absolute machinery. The sector is also constrained by lack of an effective regulatory machinery to control illegal processors and ensure quality production. The country also lacks a systematic data on fuel wood and other wood products consumption, and the sector lacks inventories to establish the exact stock of forest resource. Production especially by the small-scale millers, is hindered by lack of logistics and working capital. Finally, there is lack of market information for sawn timber and other products.

Despite the above constraints, there has been increased production of sawn timber and other wood products which could be a reflection of the demand derived of the service sector of the building and construction industry. Similarly, production of poles, fence posts, clipboard and blockboard was growing during 1984/85 and 1993/94. In addition to the traditional wood products common to the local market, the sector offers investment opportunities in the production of particle board products, laminated and cement bonded board products.

There are also prospects for production of completely knocked down (CKD) or ready-to-assemble (RTA) furniture made from both wood and particle board. Opportunities also exist for manufacture of small wood products, rods, broom handles, other rods, rails, chip board and plywood, rapid wood cement slabs for low cost housing, marine plywood, hooded strip wood board, and tongue and groove wall panel.

C. TEXTILE AND CLOTHING

Recent trends

Generally the textile industry in Uganda is characterized by low levels of efficiency, high production and low capacity utilization rendering the industry less competitive.

Textile milling is dominated by eight mills. These are Picfare Nytil Ltd,[19/] African Textile Mills, Uganda Spinning Mill Ltd, Uganda Garment Industries Ltd, Uganda Bags and Hessian Mills Ltd, Uganda Fishnet Manufacturers Ltd, Uganda Blanket Manufacturers, and Mulco Textiles Ltd. A review of these mills however, indicates that the machines and equipment in most of the enterprises are in very poor condition due to inadequate maintenance while others have absolute machinery. As a result of these constraints, there has been a sharp decline in the textile industry falling from 18.6 million sq m in 1982 to 2.6 million sq m in 1995.

Uganda was leading textile exporter within the East African region in the 1960s and early 1970s. The sector, however, declined and has not recovered. The decline in production is continuing when most other sectors of the economy have registered reasonable increase in output in the recent past.

As a result of low production, the unsatisfied demand for clothing in Uganda is largely dependent on imported second hand clothes as indicated in Table III.12.

Table III.12. Volume of second hand clothing imports, 1992-1994
(Number of pieces)

Year	Quantity
1992	4,330,230
1993	9,338,160
1994	11,259,005

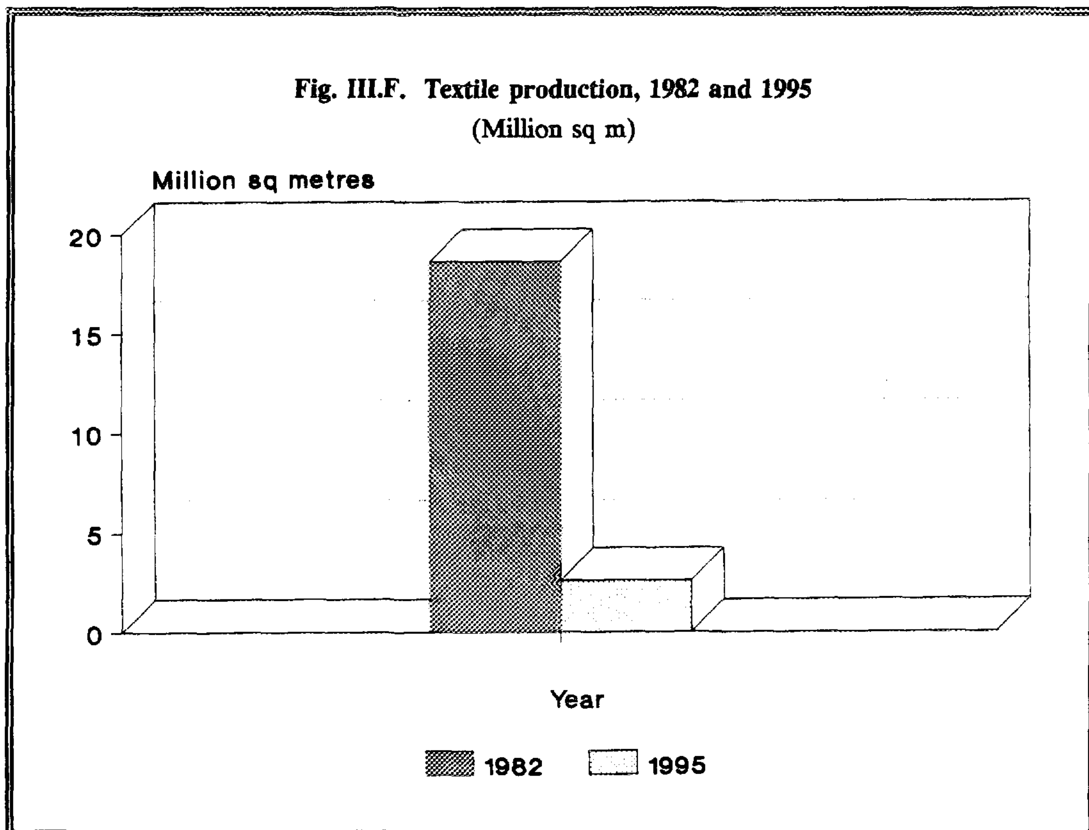
Source: Centre for Basic Research, Kampala.

Constraints and prospects

Most Ugandan textile industries experience low output and low capacity utilization as mentioned earlier. Also the industry faces lack of innovative standards and quality of products to meet market demands. Other constraints which impede the growth, development and competitiveness of the textile and clothing subsector include: limited availability of primary raw materials, namely cotton, due to the collapse of the marketing and ginneries over years of economic decay, unreliability and high cost of power supply and other utilities and limited access to finance and credit to further investments and operations.

With the current privatization programme being implemented by the Government of Uganda, there are prospects for revitalizing textile enterprises by new entrants/private investors.

Fig. III.F. Textile production, 1982 and 1995
(Million sq m)



D. PULP, PAPER AND PRINTING

Resource base

The indigenous fibre resources of Uganda comprise primarily of pine, tropical hardwoods, bamboo, bagasse, papyrus and cotton lint. Bamboo forests are located between Kabale and Kisoro districts in South-Western Uganda. The predominant species of bamboo is Erudiaara Alpine, which grows on the high land slopes in the Echunya and Mgahinga Reserves at elevations of over 2500 metres. Bamboo is, however, not a significant source of raw materials for pulp mills in Uganda because of insufficient quantities and high costs of extraction and transportation. Inventory studies of the industrial wood plantations indicate that there are about 13,800 ha planted areas comprising cyprus, pines and eucalyptus.

Most of the pulp production in the country has been from the sugar mills. It is expected that a total of about 438,000 tonnes of bagasse, at 50 per cent moisture, could be produced from the three sugar mills in 1995/96. By the year 2000, production is expected to increase to 583,000 green tonnes, sufficient to meet the needs of a pulp mill.

Recent trends

There are 15 establishments involved in the paper and printing industry in Uganda. Tremendous growth was recorded in the sector in 1993/94 with the entry of a number of privately owned manufacturing plants. As a result of these investments, a variety range of pulp and paper products manufactured in Uganda has expanded the production of different types of products.

Table III.13. Production of paper by type, 1993-1994
(Thousand tonnes)

Type of paper	1993	1994
Newsprint	67.4	86.7
Printing and writing paper	143.1	156.8
Board	41.9	47.2
Paper Tissue	3.1	3.7
Cropping paper	11.6	17.9
Cigarette paper	2.3	2.6

Source: MFEP, Production Statistics 1994.

Constraints and prospects

While the pulp and paper sector is being developed as an import substituting industry, more than 60 per cent of the domestic demand for pulp and paper is still imported. Between 1990 and 1993, Uganda's imports of paper have increased at an annual average rate of about 30 per cent from about 201,000 tonnes to almost 363,000 tonnes. During the same period, the country's imports of pulp increased from 53,300 tonnes to 130,900 tonnes as shown in Table III.14.

Table III.14. Imports of pulp and paper, 1990-1993
(Thousand tonnes)

Type of paper	1990	1991	1992	1993
Printing & writing	113.8	124.7	112.0	224.6
Industrial paper	87.8	71.7	78.9	135.5
Tissue paper	0.4	0.4	1.1	3.6
Pulp	7.9	53.3	141.7	130.9

Source: "Imports Surge" Uganda Manufacturers Association Newsletter, October 1994.

E. IRON AND STEEL

Resource base

Uganda's most important known iron deposits are located at Muko in Kabale district and in Kisoro district. There are also magnetite deposits at Sukulu and Bukusu in Tororo District. Latest air bone magnetic surveys indicate the presence of additional iron ore deposits in Kigezi. The Sukulu deposits are estimated to contain about 45 million tonnes of ore averaging 62 per cent Fe and 2.6 per cent Phosphate. Reserves at Bukusu are estimated at 23 million tonnes of iron ore with a high titanium content of 10 per cent to 20 per cent.

The iron ore potential does not only require huge investments in the construction of a mine and smelter, but is also dependant on the existence of a steel industry. Discussions have been initiated between Uganda and PTA to explore opportunities for exploiting Uganda's Iron ore to meet demand for the iron and steel industry in the PTA region.

Recent trends

Uganda's iron and steel industry used to be dominated by the East African Steel Corporation (EASCO) manufacturing steel and semi-finished steel products. At its peak in the 1960s production stood at 25,000 tonnes per year but dropped to 560 tonnes per year between 1972 and 1986. The Government of Uganda has however, taken steps to rehabilitate the factory and Uganda's steel industry production has increased over the last six years. Most of the production has been based on three main steel mills producing crude and finished products as shown in Table III.15.

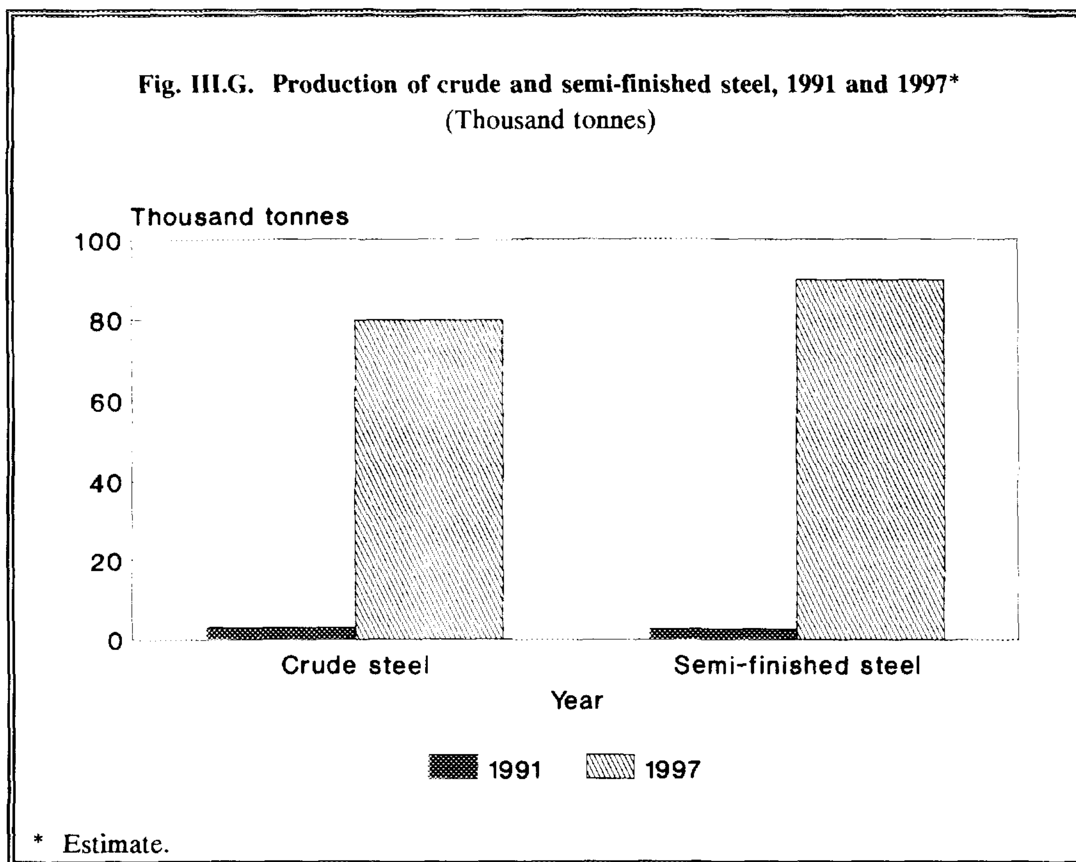
Table III.15. Projection of production of crude steel and semi-finished steel, 1991-1997
(Thousand tonnes)

	1991	1992	1993	1994	1995	1996	1997[a/]
Crude steel:							
SRM	3.0	10.9	14.5	20.0	20.0	20.0	20.0
SEMBULE	-	-	-	3.0	10.0	15.0	35.0
EASCO	-	-	-	-	15.0	20.0	25.0
Total	3.0	10.9	14.5	23.0	45.0	55.0	80.0
Semi-finished:							
SRM	2.7	9.9	13.2	18.2	18.2	18.2	18.2
SEMBULE	-	-	-	8.5	16.4	29.3	46.8
EASCO	-	-	-	15.0	20.0	22.5	25.0
Total	2.7	9.9	13.2	41.7	54.6	70.0	90.0

Source: Arkwright, *Report on Casement Group 1992.*

a/ Estimate.

Fig. III.G. Production of crude and semi-finished steel, 1991 and 1997*
(Thousand tonnes)



* Estimate.

Currently, the major operational establishment is Steel Rolling Mill at Jinja whose products are mainly merchant bar and wire rod structural steel, and ore alloyed cold for work tool steel. Another privately owned establishment is Sembule Steel Mills, in Kampala which started operations in 1993 with an initial production capacity of 22,000 tonnes per year to be gradually expanded to 50,000 tonnes in the following years. In addition to the above, SRM/Casements of the ALAM Group, operates a rolling mill which started in 1988 also producing aluminium products. One other major participant in the sector is General Machinery Co. Ltd which is presently the country's only vehicle assembly plant with a capacity of 490 commercial vehicles and 360 trailers per year, with about 40 per cent available for export. The company is also licensed to manufacture agricultural implements.

Apart from the large-scale establishments, there are some small-scale companies like the MC Industries in Kampala. The enterprise is, however, constrained by lack of sufficient equipment and poor working conditions (e.g. lighting, crowded working area) which contribute to inferior product quality. Other participants in the industry are Busoga Growers Cooperative Union Workshop and Chillington at Jinja. These establishments are, however, also constrained by poor working conditions and obsolete equipment.

Despite the growth trends registered over the past years, the national steel consumption is still very low, amounting to 2.4 kg per capita as of 1994. The low steel per capita consumption is empirically related to the low level of technological development in Uganda.[20/] With the recovery of the economy, the market for metal products in Uganda is for processed steel in particular as shown in Table III.16.

Table III.16. Uganda's steel consumption, 1991-1997[21/]
(Thousand tonnes)

	1991	1992	1993	1994	1995	1996	1997[a/]
Crude Steel	4.64	12.6	17.8	42.8	60.0	77.0	99.0
Semi-finished	19.2	26.9	30.7	57.3	77.6	98.0	122.0

Source: "Trade in Iron and Steel", *Uganda Manufacturers Association Newsletter No. 2.*

a/ Estimate.

Due to the current low production, the principal alternative raw material for the production of iron and steel products is scrap metal which is only available in small quantities. The present level of supply of raw materials is largely dependant on imports. A breakdown of imports reveals two categories, mainly direct and indirect consisting of various types of steel as detailed in Table III.17.

Table III.17. Import supply of steel, 1991-1994
(Thousand tonnes)

	1991	1992	1993	1994
Indirect import steel	120	124	128	133
Direct imports: crude steel	22.8	15	22	19
Semi-finished	16.3	23	28	32

Source: "Trade in Iron and Steel", *Uganda Manufacturers Association Newsletter No. 2.*

Constraints and prospects

The subsector is constrained by a number of problems, including the lack of skilled manpower. Also establishments in the sector lacks financial resources and experience poor management. Other technical constraints include use of obsolete production equipment, poor quality control in production, lack of research and development activities, inadequate design facilities, lack of spares for sophisticated equipment and lack of effective technology transfer mechanisms.

Despite the above constraints, the potential for expansion does exist as steel consumption in Uganda continues to grow. There are opportunities for new entrants in machinery and transport equipment manufacture, promoting related industries in the areas of general purpose machinery, manufacture of special purpose machinery, domestic appliances, bodies for motor vehicles, trailers and semi-trailers, and manufacture of transport equipment.

F. NON-METALLIC MINERAL PRODUCTS (BUILDING MATERIALS)

Resource base

Uganda is well endowed with the non-metallic minerals required for the development of a cement industry, including limestone and clay. Most of the surface of Uganda comprises pre-Cambrian rocks which have undergone varying degrees of metamorphism. Limestone is a major raw material for the manufacture of Portland cement in Uganda. Limestone is also used in retractors, paper mills, concrete and road metal, sugar croaks, calcium carbide works, and animal feeds. Deposits are found at Kuhokya, Dura, Hima, Busanga, Tororo, Buda and Moroto. The Tororo (*Carbonatic* limestone) and the Hima Sedimentary limestone deposits are exploited for producing cement in plants located near the deposits.

In addition to limestone, Uganda has substantial clay deposits mainly found in low, swampy areas with varying quality levels according to the source of the rock. Substantial deposits are found near Kampala, for example Kajjansi, Namanve, Nansana and Kasubi. The department of Geological Survey and Mines with the assistance of East and South Africa Mineral Resources Development Centre is evaluating clay deposits in Uganda to establish their commercial viability.

Glass sand is also found around the shores of Lake Victoria with the most prominent locations being at the Dimu sands, near Masaka, Namuli and Nyimu bays near Kampala. Also, more than 100,000 tonnes of good quality glass sand (99.05 per cent $Si0_2$ and 0.05 per cent $Fe_2{}^0{}_2$) have been identified. Very high silicon ($Si^0{}_2$) deposits are found at Bukakata. The Government of Uganda, through United Nations Industrial Development Organization (UNIDO) is seeking to assess the commercial viability of these glass sands to produce sheet glass, table ware and laboratory glass ware.

Furthermore, there are gypsum deposits in Kibuku and Kuhokya in Kasese and Lake Mburo in Mbarara. There is an estimated 29,000 tonnes at Muhokya, 1.2 tonnes at Kibuku and 80,000 tonnes at Lake Mburo. Gypsum is utilized in cement manufacturing ceramics (as a mould) and sanitary ware making.

Uganda is also endowed with marble which occurs in Karamoja, Dura River and Kasese but the quantities are not yet established. The mineral is a potential raw material for making terrazzo, concrete block and ceramics. Karamoja based marbles are of very high quality, and are regarded as a major opportunity to be exploited.

Finally, in Uganda, potassium feldspar occurs in association with caoline at Mutaka. Analysis of samples of raw materials indicate that 66 per cent feldspar containing 10.2 per cent K_2O and over 90 per cent feldspar with 13 per cent K_2O.

CEMENT

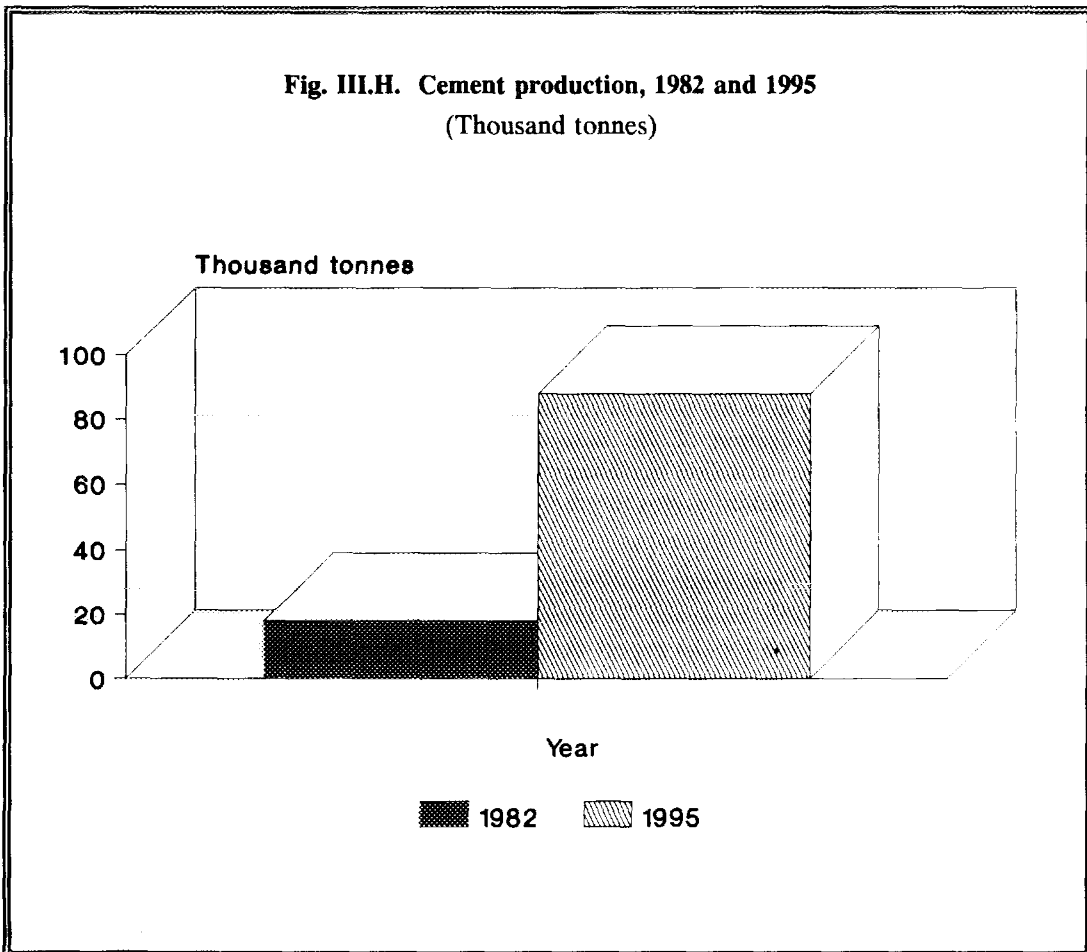
Recent trends

Cement manufacturing in Uganda was dominated by the Uganda Cement Industry (UCI),[22/] a corporation owning two cement plants, namely Tororo cement factory and Hima cement factory. Under the divestiture programme, however, the Government in 1994 sold Hima cement factory to private investors.

Tororo cement plant was commissioned in 1952 to supply cement for the construction of the Owen Falls Dam in Jinja. Cement production is not on continuous basis but in batches and it is difficult to ascertain the production levels due to frequent machinery breakdown. On the other hand, Hima cement plant commenced production in 1970, producing ordinary Portland cement. The estate of the Hima plant, machinery and equipment have been rehabilitated and is currently in production.

Current installed capacity of cement production in Uganda is 507,000 tonnes. The period 1982-1988 registered a decline in cement production in Uganda, reducing from 18,471 tonnes in 1982 to 14,960 tonnes in 1988. As a result of economic recovery initiatives, cement production has since 1989 registered a tremendous growth from 17,378 tonnes to 88,515 tonnes in 1995.

Fig. III.H. Cement production, 1982 and 1995
(Thousand tonnes)



Despite the recent growth in domestic cement production, supply response is not adequate to keep pace with the rapid growth of construction activities in the recent years; demand has outstripped supply in the ratio 3:1. To meet the growing demand, the country depends on imported cement from neighbouring countries. In 1994, the share of cement imports to total national imports was 2.8 per cent worth $11.9 million and imports have continued to grow since 1986 as shown in Table III.18.

Table III.18. Uganda's cement imports, 1986-1993
(Thousand tonnes)

Year	Volume
1986	11,749
1987	16,376
1988	15,908
1989	14,677
1990	15,912
1991	26,245
1992	26,403
1993	36,706

Source: Customs and Excise Department.

Constraints and prospects

The Uganda cement industry faces no input constraints. The availability of substantial untapped reserves of raw materials in many parts of the country provides the industry with a firm basis for expansion. Capacity utilization of the industry is still very low largely due to operational constraints which include: obsolete machinery and equipment (especially at the Tororo plant), financial inadequacy and limited access to credit.

With the current national economic development trends and as the domestic market continues expand, there are favourable prospects for growth in Uganda's cement industry. Also, there are opportunities for production for the export markets, especially within the PTA.

CERAMICS

Resource base

As with the other non-metallic rocks and minerals there is no available national inventory of the country's clay deposits. A 1992 UNIDO study found that suitable raw materials exist for fine ceramic manufacture. Some of the clays in Uganda, were reported to be refractory, such as washed Buwambo *Kaolin* and raw Mutaka *Kaolin*. Also, *Kyanite* deposits were recorded on the Uganda Mineral Map as occurring at two locations in Nebbi District. There are further reports on occurrence of Kaolin deposits in the following locations: Namasera Hill, Buwambo Hill, Kilembe, Migade, Mutaka and Kisai Hill, Koki.

Recent trends

There are 12 establishments in Uganda engaged in brick and tile making who utilize some of the shallow clay deposits with refractory elements.[23/] Among the local industries consuming refractors are Hima (and Tororo) cement plants, East African Steel Corporation and Steel Rolling

Mills Ltd in Jinja, Sembule Steel Mills in Kampala, over 30 foundries including Notay Engineering Industries and URC Nalukolongo in Kampala.

African Ceramics Company Ltd, another subsidiary of the UDC, located north of Mukono has since 1985 made some tableware for the domestic market using national materials except for imported gypsum moulds and glazes.

The 1993 estimates by the Ministry of Trade and Industry suggested that the Uganda market for kaolin was 25-30,000 tonnes per year. The present and potential consumers include paint manufacturers, shoes manufacturers, pharmaceutical companies and ceramics producers.

Constraints and prospects

There are numerous constraints hindering ceramic production in Uganda. These include lack of awareness of the mining rights that could protect brick makers and other processors, hazardous environmental effects especially destruction of the forest cover, transport constraints, inefficient production technology and facilities and poor marketing.

Currently, demand for glazed ceramic wall and floor tiles especially, and also sanitary ware, is rising. Despite the high taxes, the country depends on imports largely, from Italy and Spain and Kenya for high quality ceramic products. The sector therefore, offers opportunities for further investments in industrial production of ceramics.

CONCRETE PRODUCTS

Recent trends

This product group covers the manufacture of concrete[24/] or plaster articles for use in construction, such as tiles, flagstones, bricks, boards, sheets, panels, pipes and posts. Most of the concrete products used in construction and that are manufactured in Uganda include blocks, slabs, pipes, flower boxes, kerbs, culverts, roofing tiles, fencing posts, window seals, ventilators, drainage pipes, feeding troughs, ridges.

Some of the major private enterprises engaged in the manufacture of concrete products are Arapai Concrete Industries, Rakai Construction, Muyenga Rock, Kiwa Industries, ZBD Ltd, Larco Concrete Products Ltd, Turn-key Construction Co Ltd, Muyenga Block Factory, N.K. Tiles Ltd, Crown Tiles and Kattambwa Block Factory.

Constraints and prospects

The development of Uganda's concrete industry is greatly hindered by a number of constraints. Due to the low level of income in the country, there is low demand for concrete products as many constructors opt for cheaper alternatives. Also, due to the high cost of inputs especially cement which is a major component in concrete products, Uganda's products are rendered uncompetitive. Some firms are also constrained by unreliable power supply and lack of working capital which hinders capability to replace old machinery and to expand.

G. LEATHER AND FOOTWEAR

Resource base

Uganda has a population of about 5.3 million cattle, 3.2 million goats and 700,000 sheep. The slaughter rate is about 20 per cent for hides and 40 per cent for skins providing about 0.8 million hides and 1 million skins per annum. This raw material is scattered all over the country with the highest numbers (50 per cent) originating from Western Uganda.

Slaughtering, flaying and drying methods used in the country are very poor which leads to poor quality hides and skins with flay chats, gorges and putrefaction. Uganda hides and skins quality is, however, generally acknowledged to be intrinsically superior for their thickness and better grain.

Recent trends

The leather and footwear sector in Uganda is not yet well developed and there are only 8 establishments engaged in the sector. These have an installed capacity of 471,000 sq m per year for finished leather and 5.1 million pairs of footwear per year.[25] Until 1990s, the country had only two tanneries. Leather Industries of Uganda (formerly Uganda Leather and Tanning Industries Limited before privatization) is the biggest plant making finished leather. The second tannery, Alhamed Hides and Skins, processes only up to wet-blue stage for export. The combined tanning capacity of the two tanneries was 900 and 1200 skins per day equivalent to about 8.46 million square feet per year.

According to the *Index of Industrial Production 1995*, in general, the production indices of leather and footwear indicate dramatic growth in production between 1987 and 1994, reaching a 200 mark in January 1995. Details of the production levels for the period 1989 to 1994 are given in Table III.19.

Table III.19. Production of manufactured leather and footwear products, 1989-1994

Commodity	1989	1990	1991	1992	1993	1994
Finished Leather (Thousand sq m)	15	42	41	40	20	15
Footwear (Thousand pairs)	359	319	221	418	326	660

Source: MFEP, Background to the Budget 1995/96.

The principal products include finished leather for shoe uppers, lining and soles, bag leather and upholstery leather. The different types include plain and moccasin leather, light and heavy prints, suede and split linings.

Total sales between 1988 and 1993 averaged 325,750 sq ft with finished leather sales as 272,000 sq ft and wet blue sales as 107,000 sq ft. Table III.20 shows the sales performances and the percentage share of each type of product per year.

Table III.20. Sales performances and percentage share for different types of leather, 1988-1993

Year	Wet blue (sq. ft)	Per cent of total	Finished leather (sq. ft)	Per cent of total	Total sales (sq. ft)
1988	0	0	283,277	100	283,277
1989	80,236	30	190,358	70	270,594
1990	-	0	131,155	100	131,155
1991	-	0	127,435	100	127,435
1992	160,137	27	435,395	63	595,532
1993	80,922	15	465,585	85	546,507

Source: UNIDO.

In the past, the sector was exporting wet blue leather to UK, Holland, Italy, the Republic of Korea and India but it did not establish a stable and consistent market. Currently, exports go largely to Italy where a stable market will be established.

The local demand for leather in Uganda is estimated at 3.5 million sq ft. Taking into account competition from imports of finished leather from the neighbouring countries, imports of second hand leather products and leather substitutes like synthetics, it is estimated that domestic production accounts for 15 per cent share of the local market.

The Government of Uganda with assistance from UNIDO, has instituted a project to help promote the leather and footwear industry. One of this project is to train small-scale shoe producers in modern techniques. It is hoped that at the end of the project, technology for shoe production will improve and, depending upon availability of support in the importation of modern equipment, shoe production will increase. Local shoe production satisfies about 25 per cent of total demand, about 30 per cent is satisfied through imports (new shoes) and the rest is met by imports of second hand shoes.

Other leather goods produced in Uganda include leather bags production and sport balls. About 18,700 balls are produced annually by a local private firm which are consumed locally.

Constraints and prospects

The major constraints affecting leather industry include poor quality of raw hides and skins and lack of leather converters, poor machinery and low capacity utilization. The sector is also constrained by shortage of working capital, competition from low priced imports and leather

substitutes plus second hand leather products, high tax on finished leather and poor local market due to low purchasing power.

There are however opportunities and prospects for growth and investment in the sector. These include a growing export market especially to the EEC, stable world prices and a favourable government policy for export oriented investment.

NOTES TO CHAPTER III

1/ The programmes are largely coordinated by The National Agricultural Research Organization (NARO) and Makerere University.

2/ MFEP, *Population and Housing Census 1991.*

3/ MFEP, *Census of Business Establishments in Uganda 1989,* Statistics Dept. 1993.

4/ MFEP, *Background to the Budget 1995/96.*

5/ The plant is currently not in production due to machinery breakdown.

6/ The sugar currently produced in Uganda is 'plantain white' sugar.

7/ Under the auspices of the Uganda Tea Growers Corporation (UTGC) with nine estates and working with over 11,000 registered outgrowers.

8/ Attributed largely to the exodus of Asians and foreign owners after which the estates were expropriated and managed by government parastatal and the Departed Asian Custodian Board.

9/ UNDP/PSDP, *National Strategy and Programme of Action for the Agricultural Sector,* December 1996.

10/ This excludes fruit and vegetable products.

11/ These include higher costs due to deficiencies in provision water and electricity utilities.

12/ Levied on all costs including interest and the manufacturers profit margin or levied as *ad valorem* equivalent to 225 Ushs per litre whichever of the two is higher.

13/ Revise results.

14/ Agricultural Policy Secretariat 1996.

15/ MFEP, *Background to the Budget 1995/96.*

16/ *Ibid.*

17/ Source: Ministry of Natural Resources, *State of the Environment Report for Uganda 1994.*

18/ UNDP/PSDP, *National Strategy and Programme of Action for Tourism Development in Uganda: Tourism, Status Report,* August 1996.

19/ Formerly a government parastatal known as Nyanza Textile Industries Ltd was recently privatized under the privatization and divestiture programme.

20/ A threshold figure of 50 kg per capita is regarded as a necessary level for a country to take off technologically.

21/ In this report, consumption refers to locally processed steel, comprising imports and local production.

22/ Stockholders of UCI are: Uganda Development Corporation (UDC) 51 per cent, Uganda Crane Industries Ltd (Subsidiary of UDC) 33.9 per cent, Development Finance Company Ltd 9.8 per cent, Talcot Ltd. 1.8 per cent, Universal Asbestos Co. UK Ltd. 1.8 per cent, Bukedi District Administration 0.2 per cent, and others 1.8 per cent.

23/ MFEP, *Index of Industrial Production*, June 1995.

24/ This report focuses mainly on concrete products used in construction.

25/ MFEP, Background to the Budget 1995/1996.

INDUSTRIAL DEVELOPMENT REVIEWS ISSUED SINCE 1988

NON-SALES PUBLICATIONS[1/]

Liberia:	Resource-based industrialization and rehabilitation	PPD.74	1988
Qatar:	Towards industrial diversification of an oil-based economy	PPD.75	1988
Nepal:	Industrialization, international linkages and basic needs	PPD.79	1988
Kenya:	Sustaining industrial growth through restructuring and integration	PPD.85	1988
Somalia:	Industrial revitalization through privatization	PPD.91	1988
Philippines:	Sustaining industrial recovery through privatization and foreign investment	PPD.92/Rev.1	1988
Nigeria:	Industrial restructuring through policy reform	PPD.100	1988
Djibouti:	Economic diversification through industrialization	PPD.111*	1989
Bangladesh:	Strengthening the indigenous base for industrial growth	PPD.114	1989
Mauritania:	Industrial reorientation and rejuvenation	PPD.115*	1989
People's Democratic Republic of Yemen:	Enhancing industrial productive capacity	PPD.122	1989
Yemen Arab Republic:	Diversifying the industrial base	PPD.130/Rev.1	1989
The Sudan:	Towards industrial revitalization	PPD.132	1989
Cameroon:	Coping with reduced oil revenue	PPD.146(SPEC)*	1990
Poland:	Second Investment Forum for the Promotion of Foreign Investment	PPD/R.36**	1990
Namibia:	Industrial development at Independence	PPD.166	1990
Angola:	Economic reconstruction and rehabilitation	PPD.172	1990
Viet Nam:	Industrial policy reform and international co-operation	PPD.184	1991
Ethiopia:	New directions of industrial policy	PPD.185	1991
Swaziland:	Enhancing industrial potential	PPD.223	1992
Uganda:	Industrial revitalization and reorientation	PPD.230	1992
Lithuania	Industrial re-orientation	PPD.245	1993
Mongolia	Restructuring for a market economy	PPD.249	1993

© United Nations Industrial Development Organization

Lao People's Democratic Republic			
	Industrial transition	CPD.2	1994
Namibia	New avenues of industrial development	CPD.5	1994
Ethiopia	Accelerating industrial growth through market reforms	RPD.1	1996
Eritrea	A new beginning	RPD.2	1996
Kenya	Paving the road to NIC status	RPD.3	1996
Uganda	Sustained stabilization and industrial growth	RPD.5	1997

JOINT SALES PUBLICATIONS - Blackwell Publishers, Oxford[2/]

India:	New dimensions of industrial growth	1990
Pakistan:	Towards industrial liberalization and revitalization	1990
Malaysia:	Sustaining the industrial investment momentum	1991
Poland:	Managing the transition to a market economy	1991
China:	Towards sustainable industrial growth	1991
Thailand:	Coping with the strains of success	1992
Czechoslovakia:	Industrial transformation and regeneration	1992
Hungary:	Progressing towards a market economy	1993

SALES PUBLICATIONS - The Economist Intelligence Unit (EIU)[3/]

Indonesia:	Industrial growth and diversification	1993
Mexico:	The promise of NAFTA	1994
Egypt:	An enabling environment for investment	1994
India:	Towards globalization	1995
Iran:	Industrial revitalization	1995
Central Asian Republics:		
Volume I:	**Kazakstan, Kyrgyz Republic, Tajikistan**	1996
Volume II:	**Azerbaijan, Turkmenistan, Uzbekistan**	1996
China:	Managing investment-led growth	1996

---

* Available also in French.
** Restricted.

1/ Copies of non-sales publications may be obtained directly from: UNIDO, Industrial Sector Surveys Team, P.O. Box 300, A-1400 Vienna, Austria. FAX: (43-1) 21131 6864

2/ Sales publications may be ordered directly from: Blackwell Publishers, 108 Cowley Road, Oxford, United Kingdom. FAX: (0865) 791347

3/ Sales publications may be ordered directly from: The Economist Intelligence Unit (EIU), 15 Regent Street, London SW1Y 4LR, United Kingdom. FAX: (0171) 491 2107

© United Nations Industrial Development Organization