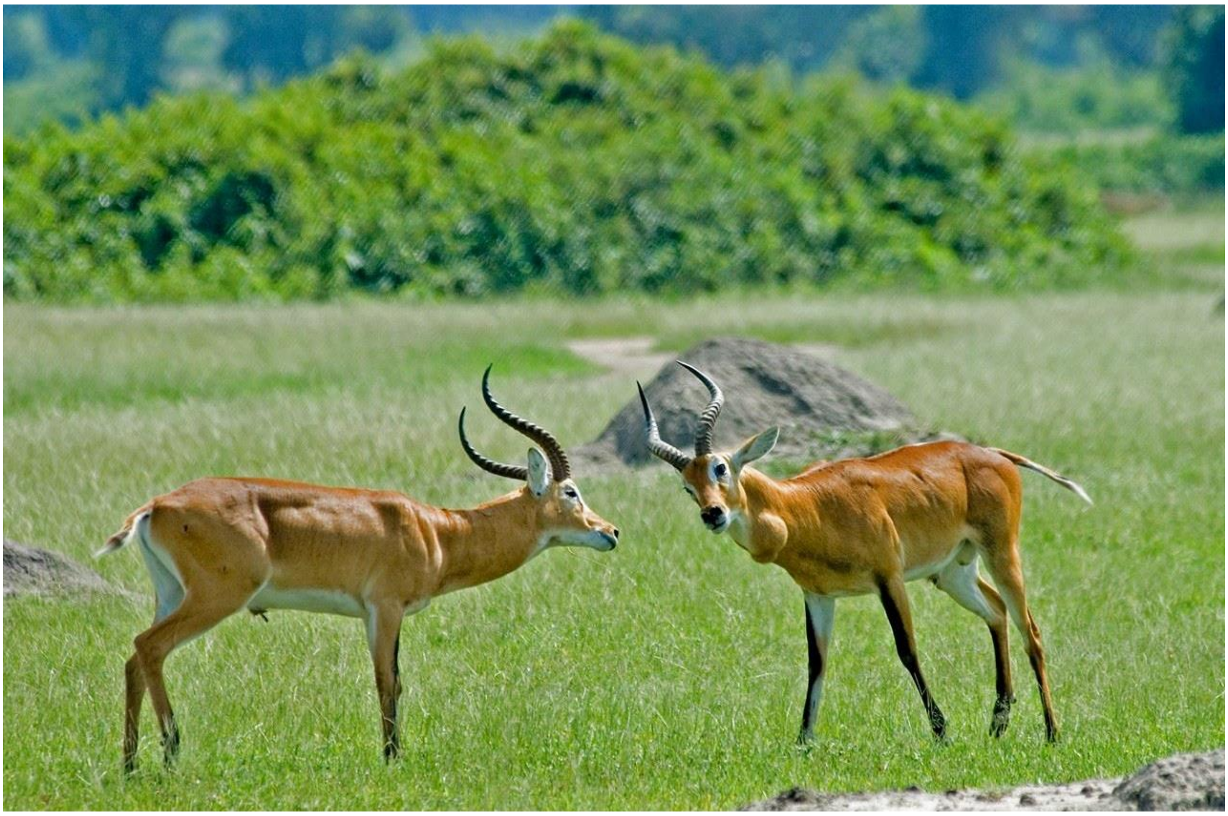
WHAT MPS SHOULD CONSIDER WHEN DEBATING THE TRADE, TOURISM, INDUSTRIES AND COOPERATIVES SECTOR BUDGET FY 2019/20

CSO Trade, Tourism, industries and Cooperatives Sector Position Paper on the Uganda National Budget Framework Paper FY 2019/20



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Can 0.3% of the 2019/20 Budget allocation to Trade, Tourism, Industry and Cooperatives sector support industrialization for job creation and shared prosperity?

1.0 Introduction

The 34,304.7 billion UGX Budget for the FY 2019/20 is being drawn under the theme: "***Industrialization for Job Creation and Shared Prosperity***." This comes at time when efforts to boost industrialisation are at the core of Uganda's development agenda as derived from the African Unions' Accelerated Industrial Development for Africa (AIDA) initiative. At national level, this has been supported by putting in place a number of policies and initiatives including among others; the National Industrial Development Plan 2017, Micro Small and Medium Enterprises Policy 2015, National Export Development Strategy (NEDS) 2017, Buy Uganda Build Uganda (BUBU) among others. Through these policies, strategies and initiatives, the Ugandan government aims to build a modern, competitive, and dynamic industrial sector that is fully integrated into domestic, regional, and global economies, create jobs, increase exports and address the Trade deficit which currently stands at USD 2,434 million in FY2017/18[1]. It is also no wonder that the FY2019/20 Budget places emphasis on harnessing key Growth Sectors of Agriculture and Agro-industry; Enhancing Private Sector Growth and Development; and Strengthening Public Sector Investments among others.

The role of trade, industry and cooperatives in promoting structural transformation and development for the realisation of the Vision 2040 cannot be underestimated. Indeed, Industrialization is important in establishing backward and forward linkages between manufacturing and agriculture, creating employment, advancing technology, stimulating agricultural production and productivity, and export competitiveness and ultimately improving people's livelihoods.

Mandate of the Trade, Industry and Cooperatives sector

As a key institution responsible for Trade, Industry and Cooperatives, the Ministry of Trade Industry and Cooperatives is mandated to promote exports through value addition, strengthen MSMEs through industrial clusters, ensure the trade of quality and safe products on the domestic market, support the Regional Integration Agenda, promote Commercial Extension Services, promote Science, Technology and Innovations to enhance competitiveness of goods and services produced in Uganda as well as development of human capital to achieve Private Sector-led growth and to create employment opportunities. The key programs of Industrial and Technological Development; Cooperative Development; Trade Development; and MSME Development under this sector are responsible for the realisation of this mandate. In order to undertake this mandate, the MTIC has these key affiliated institutions including Uganda Development Corporation (UDC); Uganda National Bureau of Standards (UNBS); Uganda Exports Promotion Board (UEPB); Uganda Warehouse Receipt Systems Authority (UWRSA); Management Training and Advisory Centre (MTAC); Uganda National Commodities Exchange (UNCE); African Growth and Opportunity Act (AGOA); Uganda Textile Development Centre (UTDC); Leather Incubation Centre; among others.

[1] NBFP FY2019/20

2.0 Performance of the sector in FY 2018/19

According to the GAPR 2018, as per the FY 2017/18, the sector had six (6) outcome indicators; of which four (67%) showed a positive trend and 16% showed a declining trend while 17% was not assessed. The sector achieved 50% of its annual targets at outcome level, 33% was moderately satisfactory (between 75% and 99%) while 17% was not assessed due to inadequacy of data. At output level, performance in terms of indicators achieved improved from 59% in FY 2016/17 to 74% in FY 2017/18; 6% of the indicator targets were moderately satisfactory (performing between 75% and 99%) while 20% of the targets were not achieved.

OUTPUT PERFORMANCE - FY 2017/18	% Achieved	% Moderately Satisfactory	% Not Achieved	% No Data	Denominator
Sector	**74%**	**6%**	**20%**	**0%**	**65**
Ministry of Trade, Industry and Cooperatives	**50%**	**19%**	**31%**	**0%**	**16**
Ministry of Tourism, Wildlife and Antiquities	**87%**	**3%**	**10%**	**0%**	**31**
Uganda National Bureau of Standards	**100%**	**0%**	**0%**	**0%**	**7**
Uganda Export Promotion Board	**67%**	**0%** **0%**	**33%**	**0%**	**3**
Uganda Tourism Board	**50%**		**50%**	**0%**	**8**

Source: Sector Annual Performance Reports FY2017/18

Sector Medium Term Policy Objectives

During the FY 2019/20, the sector plans to undertake the following key activities:

- Enhance value addition and industrialization to support job creation;
- Revitalize the Cooperatives movement by mobilizing collective resources through cooperatives;
- Continue to improve the Regulatory Framework for creating an enabling environment for Trade that enables wealth creation;
- Ensure implementation of the National Development Export Strategy (NEDS); and
- Continue undertaking Technical Guidance, Inspections & Compliance monitoring Field Visits aimed at enhancing implementation of Industrial Development Initiatives.

Moreover, as per the Strategic Sector interventions, the Budget for FY2019/20 will focus on harnesing Key Growth Sectors of Agriculture and Agro-industry; and enhancing Private Sector Growth and Development among others.

Outstanding sector concerns

In spite of the critical role played by Trade, Industry and Cooperatives sector in propelling the country to a middle-income status, funding for the sector over the years has not been prioritized. Indeed, of the UGX 34,304.7 billion resource envelope for the FY 2019/20, only 0.3% (UGX 79.5 billion) has been proposed to be allocated to the Trade, Industry and Cooperatives Sector. **This is a 0.1% decrease in allocation from 0.4% of the 29.274 trillion UGX National Budget for the FY2018/19**.

In order to achieve the proposed medium-term sector policy objectives, the following challenges currently facing the sector should be addressed:

1. Low private Sector competitiveness

Whereas the country views the Private sector as the engine of growth and development, it continues to be less competitive in both the national, regional and international markets. This can be viewed from the high trade deficit currently standing at USD 2,434 million. Low private sector competitiveness is also due to the low trade in value added products, with Uganda's exports, especially those produced by Micro, Small and Medium Enterprises (MSMEs). MSMEs account for 95% of the business establishments in Uganda, with a majority (57%) of these operating in the Trading sector. However, they still face numerous challenges as identified in the MSMEs Policy 2015 including high level of informality; -lack of access to industrial parks; poor product quality and standards; few MSMEs linked to export markets; and lack of a common user facility in every district to facilitate Macro and Small enterprises in Agro-processing. This has largely contributed to low private sector competitiveness. Indeed, according to the requirement of the National Development Plan, manufactured exports in total exports should be increased by 25% from 2015 to 2020. However, projections based on current growth show a figure of 26.26% by the end of 2020, which will be below the target of 31.45%, in the same period[2]. According to the Ministry of Trade, this poor performance has been due to limited growth in trade of domestically produced products, leading to balance of trade payment deficits.

Recommendations:
In order to bridge the high trade deficit and boost Private Sector competitiveness, it is important that the following are put into consideration by the Ministry of Trade, Industry and Cooperatives:

- Invest in the construction of common user facilities in every district to support Agro-processing and value addition.
- Putting in place of the Trade Remedies Act to protect local goods and manufacturers by regulating the importation of products that are already locally produced and supplied on the national market.
- Implement the Buy Uganda Build Uganda (BUBU) policy and fast tracking the development of the Local Content Bill, 2017 for MSMEs competitiveness and growth.

2. High level of prevalence of sub-standard products on Ugandan market and limited number of certified Ugandan products accessing regional and International markets.

One of the documented key challenges to the trade sector is poor-quality products which do not conform to market standards. According to the Uganda National Bureau of Standards (UNBS), the infiltration of substandard products, both imported and domestically manufactured on the national market is tagged at 54 per cent[3]. One of the causes of poor product standards is due to lack of information on standards on the procedures of how to obtain a quality mark coupled with lack of information on specific required product market standards. The end result of this is the production of products which do not bear quality marks and which have failed

[2] Report of the 9th Trade Sector Performance Review Meeting, 2018

[3] https://www.monitor.co.ug/Business/Finance/UNBS-reduces-certification-fees/688608-4808946-a7xo31/index.html

to penetrate and be competitive at national and regional markets. Moreover, products with no quality mark have often been rejected at the boarder by Customs Officials thus restricting their capacity to access the EAC Market. Furthermore, the high cost of appropriate packaging materials whose taxes have been increased from 25% to 35% import duty has made it difficult for Agro-processors to use appropriate food-grade packaging materials. Majority of Ugandan products also lack a mandatory quality mark which has promoted Uganda National Bureau of Standards (UNBS) to issue a directive that with effect from January 2019, all products on Ugandan Market should be allocated with a quality (Q) marks.

Recommendations:

In order to increase on the share of exports both in value and volume as envisioned in the FY2019/20, the Ministry of Trade should facilitate the UNBS in order to:

- Raise awareness and train the business community, farmers, manufacturers and consumers about standards compliance.
- Publish abridged series of standards in local languages for easing people's comprehension and awareness.
- Control the influx of sub-standard products on the market and of products which can be locally produced.
- Empower UNBS, both financially and human resource to realise its mandate.
- Waive the 35% import duty on packaging materials for Micro and Small enterprises to promote use of food-grade packaging materials.

3. Underutilisation of markets at national, bilateral and global level

Under the Trade Development Program, ministry of Trade is mandated to enhance Uganda's market access through trade negotiations. The government of Uganda has unilateral market offers from the European Union (Everything But Arms-EBA) and the U.S.A (Africa Growth and Opportunity Act -AGOA), including other regional markets at the East African Community (EAC) and Common Market for Eastern and Sothern Africa (COMESA) level. The government is also currently engaged in negotiations like the EAC-EU Economic Partnership Agreement (EPA), the World Trade Organization (WTO) negotiations, the Continental Free Trade Area (CFTA), the Cost Cotonou process among others.

However, apart from COMESA and EAC where the country has had a trade surplus, the utilisation of these markets by Uganda is still low. This is more so on AGOA, EBA and trade with other key countries like China, India, Middle East among others. Under AGOA, in the EAC, in 2018, Uganda was the least performer with sales worth $3.2 million compared to Kenya, Tanzania and Rwanda which registered sales worth $454.2 million; $42.1 million and $5.8 million respectively[4]. Furthermore, the individual countries with which Uganda had high trade deficits in 2017/18 were: China amounting to US$ 854.82 million (representing 32.89% of the deficit); India for US$ 596.96 million (22.97%); Saudi Arabia for US$ 384.07 million (14.78%); United Arab Emirates for US$ 277.74 million (10.69%) and Japan for US$ 247.83 million (9.54%), out of a total deficit of US$ 2,599.10 million in that year[5]. The above five countries were responsible for approximately 80% of Uganda's trade deficit. This needs to be addressed through increasing the penetration and competitiveness of Uganda's exports in these markets.

Recommendations

- Uganda Export Promotion Board (UEPB) be facilitated in order to promote growth in trade of

[4] https://www.theeastafrican.co.ke/business/East-Africa-exports-to-the-US-hit--1bn-in-the-year-to-September/2560-4914404-12mqfte/index.html

[5] Report of the 9th Trade Sector Performance Review Meeting, 2018

domestically produced products for increased utilization of regional and global markets by Uganda's business community.

- Uganda Development Corporation (UDC) should be supported to ensure that the established factories e.g. Soroti Fruit Factory; Uganda-Egypt Food Security Company; Kigezi High Tea processing factory are equipped with the required volumes of raw materials so as to enable them perform to their expected capacities.

4. Support to the District Commercial Officers (DCOs).

DCOs are mandated to promote trade through enterprise development, create market linkages to domestic, regional and international markets, improve of standards of products, and promote consumption of locally produced goods. The Ministry has continued to support the DCOs through Commercial Services Conditional Grant to facilitate commercial extension services at the Local Governments. According to the Ministry of Trade, with the termination of the EU funded District Commercial Services Support (DICOSS) Project, there is a gap in reaching all the Commercial Officers and indeed, Wages, Non Tax Revenue, Government development and Taxes all have 0% allocation in the FY 2017/18.

Furthermore, according to the Ministry of Finance (2017), the approved structure of Commercial Officers has not yet been operationalized[6]. The GAPR 2017/2018 also reports that insufficient funds to the department, budget and other infrastructural inadequacies continue to hinder the DICOSS Project from reaching out to all District and Municipal Local Governments supported by the Conditional Grant. This shows that despite their critical role, DCOs are underfunded. Consequently, the Ministry of Trade and its work at the district level has remained very weak and uncoordinated with other sectors and critical national agencies.

Recommendations

- With the termination of the EU funded District Commercial Services Support (DICOSS) Project that was contributing UShs Bn. 2.343,[7] it is important that the sector receives an increase in the budgetary allocation to enable the support of the DCOs in effectively executing their roles. The ministry must develop and present to parliament a clear plan on how the work that has previously been done under this project will be mainstreamed within the Ministry's mainstream work plan and budget for local economic development.

- Provide for more elaborate structure for trade at the district levels to provide for commercial services information to guide policy processes, export facilitation structures, industries development, standards and certification, cooperatives, MSME and business support and development.

5. Strengthening of the Uganda Development Corporation (UDC):

The UDC was set up with the primary mandate of promoting and facilitating industrial and economic development of Uganda. The UDC Strategic Plan 2017/18-2032/33 aims at "Driving Industrial and Economic Development for transformation". This 15 year Strategic Plan is a guide to facilitate

[6] MoFPED (2017), Report on the Local Government Budget Consultative Workshops for FY 2018/19

[7] Ministry of Trade, Industry and Cooperatives, Ministerial Policy Statement. Presented to Parliament of the Republic of Uganda for the debate on the Budget estimates for the FY 2016/17

Government Investment in strategic sectors of the economy for purposes of industrial and economic development of Uganda. Among key achievements of UDC is the Soroti fruit factory (all equipment for the factory has been installed and the factory is to be commissioned in February 2018)[8]; Tea factories in Kabale and Kisoro (lease financing agreement signed between UDC and Kigezi Highland Tea Ltd, with 95% of Civil Works for the factory complete)[9]; Tea Factories in Kyenjojo and Kanungu (procurement process for the supply, installation and commissioning of equipment is ongoing)[10]. However, according to the Ministry of Trade, Industry and Cooperatives annual Sector performance report 2017/2018, UDC continues to face a challenge of under capitalization to be able to embark on a number of strategic products that would lead to industrial and economic development of the country. The Auditor General's report 2017 also reports staffing gap as one of the challenges to UDC.

Recommendations:

- *In order to promote strategic industrialisation in Uganda, the UDC should be supported in increasing her human resource, research and to ensure that the already factories are effectively and efficiently operational.*

6. **Create an enabling environment through enacting and implementation of policies, Bills and Strategies.**
According to the Annual Sector Performance Report for the FY2017/18 by the Ministry of Trade, a number of Bills and Policies have been passed by parliament or are before parliament, Cabinet, while others are being developed. These are attached as Annex 1.

It is very important to note that a policy and legal environment is very critical in order to improve private sector competitiveness, create a strong industrial base, foster technological development, create jobs, increase trade in value added products, enhance standards among others.
In order to achieve this, MTIC requires Human resources and financial resources, to undertake consultations and ensure that they are effectively implemented.

Conclusion

Uganda can trade and industrialise her way out of poverty into job creation, wealth and prosperity at national and household level. However, in order to do this, the country needs to prioritise funding for the the Trade, Industry and Cooperatives Sector in order to ensure its effective functioning and realisation of the Vision 2040. Moreover, this is the theme where the Budget for the FY 2019/20 is premised.

REFERENCES

- MoFPED (2017), Report on the Local Government Budget Consultative Workshops for FY 2018/19

- Ministry of Trade, Industry and Cooperatives, Ministerial Policy Statement. Presented to Parliament of the Republic of Uganda for the debate on the Budget estimates for the FY 2016/17

- Annual Sector Performance Report for the FY2017/18 by the Ministry of Trade

- NBFP FY2019/20

- Sector Annual Performance Reports FY2017/18

[8] Ministry of Trade, Industry and Cooperatives annual Sector performance report 2016/2017.

[9] Ibid

[10] Ibid

Annex 1

Bills Passed by Parliament

- The Sale of Goods and Supply of Services Act and assented to by the President

Bills before Parliament

- Cooperative Society Amendment Bill
- Sugar Bill
- National Accreditation Bill

Policies and Strategies before Cabinet

- The Principles for the National Alcoholic Drinks Control Bill, 2018
- The proposed Amendments to the Principles for the Competition and Consumer Protection Bills
- The Appointment of Members to the 8th National Standards Council
- Transfer of Cooperative Training Institutions
- Ratification of the African Continental Free Trade Area (AfCFTA) Agreement.
- Principles of the Agricultural Produce Marketing Bill
- Status on the Implementation of the Buy Uganda Build Uganda (BUBU) Policy.
- Principles of the Reforms for Enacting a Scientific and Industrial metrology Bill and legal Metrology bills

Policies, Bills and Strategies under Development

- National Industrial Development Policy/Strategy
- Industrial Development Bill
- Iron and Steel Policy
- Condiments and Spices Industry Policy
- National Cooperative Policy
- Cosmetics Industry Policy
- Cabinet Information Paper on the WTO Trade Policy Review
- WTO Domestication bill
- National Trade Fairs, Exhibitions and Expositions Policy
- The National Gift Policy
- National Poultry Trade Policy
- Condiments and Spices Industry Policy
- The Anti-Counterfeit Bill Revision
- National Fruits and Vegetables Trade Policy
- AGOA Implementation Framework
- MSMEs Green Manufacturing Strategy
- National Packaging Policy
- National Wood and Furniture Policy

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