



MINISTRY OF TRADE, INDUSTRY AND COOPERATIVES

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UGANDA DEVELOPMENT CORPORATION – DRIVING INDUSTRIAL GROWTH THROUGH IMPORT SUBSTITUTION



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The Uganda Development Corporation (UDC) was established in 1952 to facilitate industrial and economic development. By 1970, UDC had become the engine of Uganda's transformation with 38 subsidiaries and 19 associated companies, employing over 24,000 persons and contributing 33% of the country's total revenue. Uganda embarked on a broad range of policy and institutional reforms in the late 1980s and early 1990s, mainly to reduce the role of government in the economy and to promote the role of the private sector. This process saw all the investments of UDC divested; and the Corporation wound up in 1998. Eventually, the government realized that a private-sector driven by profit was not able to invest in some sectors or economic activities that are core to Uganda's industrial and economic transformation; thus enriching the debate and arguments for and the eventual revitalization of UDC in 2016.

The Corporation is steadily growing a rich portfolio of investments in strategic sectors and becoming a major driver of Uganda's industrial development. The Corporation's investment portfolio which currently stands at 16 investees, is spread across the country. Our footprint is in agro-manufacturing, mineral beneficiation and infrastructure & services. Agro-processing remains the largest investment sector at UDC accounting for about 70% of our investments. Large quantities of raw materials such as fruits, cotton, tea, sugarcane, cassava, maize, sorghum and coffee have been utilized by agro industries in their production process, effectively improving livelihoods and income of small-holder farmers.



Mutuma Commercial Agencies (pearl cotton)



Soroti Fruit Factory

UDC has invested in four tea factories i.e. Kigezi Highland Tea Factories, Kayonza Growers Tea Factory, Mpanga Growers Tea Factory, and Mabale Growers Tea Factory which are exporting made tea worth over USD 5.2 Million, at the Mombasa Tea Auction. The Corporation is also has plans to invest in a tea processing factory in Zombo District.

Bukona Agro Processors Limited in Nwoya District that produces denatured ethanol (green fuel for cooking from cassava) is currently exporting 100% of its production to Vivo Energy in Kenya. The Corporation also has in its pipeline, investment in a cassava starch processing factory in Acholilbur in Northern Uganda in partnership with the Archdiocese of Gulu. UDC has also invested in the Hoyal Investment Holding Company Ltd (Atiak Sugar Factory). The factory has a capacity to process 1650TCD per day with capacity to expand to 3500TCD and 5000TCD respectively.

UDC's intervention in the cotton sector is through investment in the Mutuma Commercial Agencies a budding enterprise in Luuka District that utilises over 9.2MT of cotton annually for the production of high quality absorbent cotton wool that is supplied to the National



Bukona Green fuel

Medical Stores.

UDC currently has two investments in the fruits sector; the Soroti Fruit Factory and the Nilezilla (Yumbe Fruit Factory), with plans to setup a third one in Luwero. Local fruit juice processors such as Britania, Napas Agro processing Farm and Afribond Uganda Ltd, are now utilizing locally produced orange and mango fruit concentrates/pulp from the Soroti Fruit Factory in their production process.

In order to improve Uganda's global competitiveness in the pharmaceutical sector, UDC is in the process of investing in the East Africa Medical Vitals, a company that produces examination and surgical gloves. The construction sector which plays a central role in the economy, is dominated by foreign investors. UDC has invested in the Abubaker Technical Services and General Supplies Ltd a local infrastructure construction company to strengthen its capacity to carryout big projects.

Plans are underway to establish a cement, marble and lime processing plant in Moroto, and sheet glass processing in Masaka District. In the tourism and hospitality sector, Nile Hotel International Ltd (NHIL) a company owned by UDC, acquired a stake in the Igongo Cultural Centre and Country Hotel in Mbarara District. The Corporation is also an equal shareholder in the Speke Resort Convention Centre (SRCC), under construction to host the Non-Aligned Movement Summit and G77 & China Conference in January 2024. UDC is steadfast in unlocking Uganda's thriving industrial and manufacturing sectors, and steering the country forward to its destiny as a middle-income economy.

UGANDA'S JOURNEY TO IMPORT SUBSTITUTION

After World War II, Uganda's industrialisation efforts gained significance, driven by the colonial administration's aim to increase exports of primary commodities and promote industries. The construction of the Owen Falls Dam and the establishment of the Uganda Development Corporation (UDC) played a pivotal role in attracting foreign investment and forming public-private partnerships. From 1986 to 2000, the NRM government embarked on economic reforms and stabilisation efforts, promoting economic liberalism and reducing state involvement in the manufacturing industry. Since 2010, Uganda has been working towards its long-term goal of Vision 2040 to transform from an agrarian society into a modern and prosperous nation. The country has achieved import substitution, with a decrease in manufactured imports from 68% in 2009 to 52% in 2020. However, the percentage of manufactured exports in relation to total exports has declined from 34% in 2012 to 13% in 2020, mainly due to the dominance





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of small and medium-sized enterprises producing low-value-added goods and increased export of non-manufactured products like gold and coffee. The pre-world war II colonial period in Uganda did not foster indigenous industrial development. Instead, it focused on the extraction and exportation of primary resources to serve the interests of the colonial powers. This limited Uganda's ability to develop a diversified industrial base and acquire the necessary knowledge and skills for sustainable industrialization.

Table 1: Manufacturing companies invested in by UDC as of 1972

Sn	Company	Year of Incorporation
1	Agriculture Enterprises Limited	1955
2	Ankole Tea Company Limited	1956
3	Bugambe Plantation Company Limited	1960
4	Kigezi Plantation Company Limited	1961
5	Kiko Tea Company Limited	1959
6	Mwenge Tea Company Limited	1959
7	Muzizi Tea Plantation	1962
8	Salama Estates Limited	1961
9	Solutea Limited	1960
10	Uganda Livestock Industries	1966
11	Uganda Cranes Estates Limited	1965
12	East Africa Distilleries Limited	1963
13	Uganda Meat Packers Limited	1956
14	Uganda Fish Marketing Corporation Limited	1969
15	Uganda Grain Milling Company Limited	1955
16	Uganda Maize Industries Limited	1963
17	Uganda Millers Limited	1963
18	Uganda Feeds Limited	1965
19	Nyanza Textiles Industries Limited	1949
20	Lebel (East Africa) limited	1952
21	United Garment Industry Limited	1964
22	Uganda Spinning Limited	1968
23	Associated Paper Industries Limited	1963
24	Papco Industries Limited	1967
25	Steel Corporation of East Africa Limited	1960
26	Uganda Metal Products & ENAM Co. Limited	1956
27	Uganda Cement Industry Limited	1952
28	Sukulu Mines Limited	1956
29	Kilembe Mines Limited	1950
30	Kilmex Limited	1962
31	Wolfram Investments Limited	1952
32	Bjordal Mines Limited	1948
33	Itama Mines Limited	1948
34	Domestic Appliances Company Limited	1967
35	Tororo Industrial chemical & Fertilizers Limited	1955
36	Teso Hides and Skins Industries Limited	1971
37	Lango Development Company Limited	1962
38	Associated Match Company Limited	1963
39	The Chillington Tool Co. (EA) Limited	1967
40	African Ceramics Company Limited	1967

Source: Role of Special Enterprises in African Development with Special Reference to Uganda Development Corporation. Smei Nyanzi

The spirit of state-guided capitalist development persisted in post-colonial Uganda, but the government faced uncertainties regarding development priorities. The First Five-Year Development Plan (1961/62-1965/66) was heavily influenced by the World Bank's Mission Report. The plan focused on agricultural development and lacked emphasis on industrialization. However, the Second Five-Year Plan (1966/67-1970/1971) aimed to transform Uganda's economy through industrialization, with a specific focus on miscellaneous manufacturing sectors. The Economic Commission for Africa (ECA) supported this goal, advocating for industrialization and economic transformation in eastern Africa.

The ECA's proposals aligned with the industrial priorities of successful Asian manufacturers in the 1950s and 1960s, emphasizing high-value-added industrial activities. The iron and steel sub-sector received the largest share of investment outlays, followed by heavy industries such as basic chemicals and pharmaceuticals. These initiatives led to positive economic growth in the 1960s, with GDP increasing by 4.8% annually, population growth at 2.6%, and per capita income rising by around 2%. Uganda's domestic savings were sufficient to support an ambitious investment program without straining prices or the balance of payments.

However, Uganda's development crisis began in the 1970s with the rise of Idi Amin's regime (1971-1979), which devastated the economy and disrupted



Inside soroti factory

industrial and economic infrastructure. Statistical records from the 1970s and 1980s show a decline in heavy industries, with the majority of manufacturing activities being light industries with low value addition. Light industries like food, beverages, and wood products dominated, while heavy industries suffered a significant decline.

Table 2 below demonstrates the initial growth of industry in the mid and late 1960s owing to the second post-independence development plan and the eventual decline during Idi Amin's Regime.

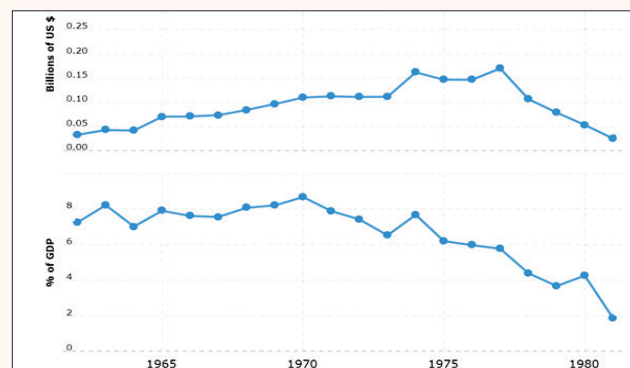


Figure 1: Uganda's manufacturing Output in billion USD and as a percentage of GDP from 1962 to 1980

Data Source: World Bank

With the assumption of power by the NRM government, Uganda embarked on a program of economic reforms and stabilization. The NRM Government called for greater economic liberalism and less involvement of the state in the manufacturing industry. This was a major shift from the position of the previous government which strongly involved in the manufacturing industry through Uganda Development Corporation. This policy posture gave resulted in the institutionalisation of a conservative model of economic governance and industrial development a major outcome of which was the rise of neo-liberal industrial policies and industrial development support institutions. These include;

- the industrialization Policy and Framework (1994-1999),
- Uganda National Bureau of Standards (1989),
- Uganda Industrial Research Institute (1992),
- Uganda National Council for Science and Technology (1990),
- Uganda Investment Authority (1991),
- Public Enterprises Reform and Divestiture Act (1993)

This period saw the liberalization of markets, fiscal discipline, and privatization of state owned enterprises and promotion of private sector-led growth. The economic reforms ushered in by the NRM Government laid the groundwork for economic recovery and set the stage for future industrialization. As a matter of fact, these measures paid off such that between 1990 and 1999, Manufacturing output grew from USD 0.23 Billion to USD 0.53 Billion and its contribution to GDP grew from 5.34% to 8.89%.

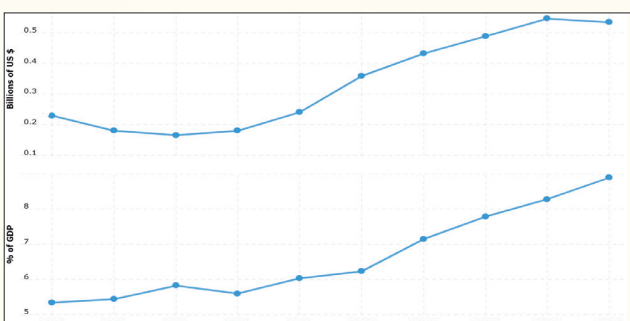


Figure 2: Uganda's manufacturing output in billion USD and as a percentage of GDP from 1990 to 1999

Data source: World Bank

To maintain the growth momentum initiated in the 90s, government developed new policy frameworks including the; Medium Term Competitiveness Strategy for the Private Sector (2000-2005, 2005-2009), Poverty Eradication Action Plan (2004-2008), the National Industrial Policy (2008), The National Trade Policy (2008), revival of Uganda Development Corporation (2008), East African Community (EAC) Customs Union Protocol (2004) and East African Community (EAC) Common Market Protocol.

However, during the period, Uganda faced a significant energy deficit, which posed a major challenge to its industrial development and economic growth. The country experienced a shortage of electricity due to limited energy generation capacity. The existing power plants, mainly hydroelectric, were not able to meet the increasing demand for electricity from industries, businesses, and households. This deficit led to frequent power outages and unreliable energy supply.

Additionally, Uganda heavily relied on hydroelectric power as its primary source of electricity. However, fluctuations in rainfall patterns and inadequate water management affected the hydroelectric power generation. Droughts and reduced water levels in rivers and reservoirs led to reduced power output, exacerbating the energy deficit. Consequently from 2000 to 2008, manufacturing output only grew by a meagre USD 0.5 billion and manufacturing contribution to GDP stagnated at around 7%. Cognizant of this challenge, Government significantly invested in electricity generation and from 2005 to 2010 Uganda's electricity generation capacity was increased from 303MW to 596MW. The new power generation capacity was diversified to include thermal energy to reduce dependency on Hydro-electric power.

With the energy challenges addressed, the Manufacturing sector experienced an impressive growth of 400% from 2008 to 2010. During this period, its manufacturing value added surged from USD 1.06 billion to USD 4.47 billion. Furthermore, manufacturing value added contribution to GDP witnessed a substantial increase, rising from 7.31% to 16.4%. This remarkable expansion in manufacturing value added during 2008 to 2010 was primarily attributed to established industries operating at their maximum capacity thanks to an ample and reliable electricity supply.

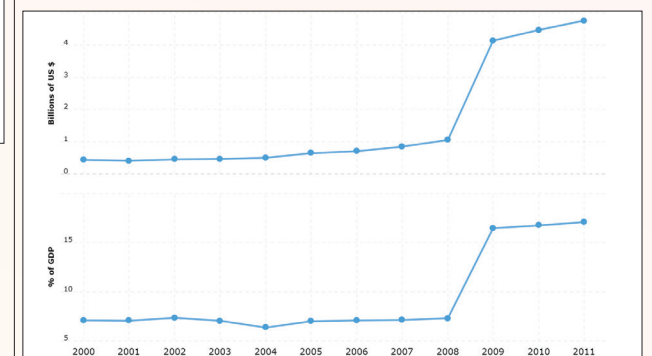


Figure 3: Uganda's manufacturing output in billion USD and as a percentage of GDP from 1990 to 1999

Data Source: World Bank

From 2010 until the present day, Uganda has been working towards achieving its long-term goal known as Vision 2040, which aims to transform the country from a predominantly agrarian society into a modern and prosperous nation. This vision has been supported by the implementation of six national development plans, with the first two already completed and the third currently in progress. However, the manufacturing sector has experienced sluggish growth during this period, with its value increasing from USD 4.76 billion in 2011 to USD 6.66 billion in 2021. In contrast, the manufacturing sector's contribution to the country's GDP has declined from 17.07% to 16.43%. These figures indicate that manufacturing has grown at a slower pace compared to other sectors.

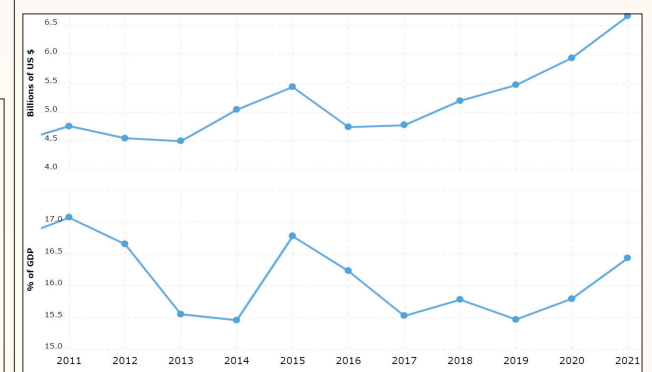


Figure 4: Uganda's manufacturing output in billion USD and as a percentage of GDP from 2011 to 2021

Data source: World Bank



Mutuma

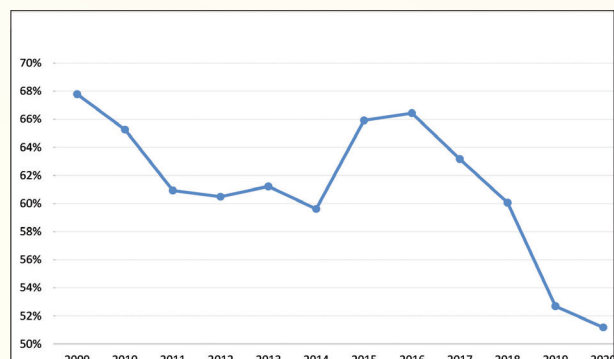
The recent business establishment census conducted by the Uganda Bureau of Statistics in 2010/11 sheds light on important aspects of Uganda's manufacturing sector.

The findings are as follows:

- **Workforce Composition:** On average, businesses in the manufacturing sector employed four people. A significant 86% of businesses had fewer than five employees, while merely 3% had a workforce of at least 20 individuals.
- **Sector Distribution:** Out of the slightly over 30,000 businesses in the manufacturing sector, 19% were engaged in food processing, while the remaining 81% were involved in non-food processing. Non-food processing comprised 43% textiles, 17% furniture making, 13% metal products, and 8% grain milling.
- **Turnover Patterns:** Distinctly, only 11% of manufacturing businesses achieved an annual turnover exceeding UGX 10 million, whereas nearly 64% had turnovers below UGX 5 million.
- **Business Structures:** Sole proprietorships accounted for 93% of manufacturing businesses, while partnerships and private limited companies constituted 3% each.
- **Technological Adoption:** A staggering 95% of manufacturing businesses did not possess a computer, and a mere 3% utilized the internet for their business activities.

The data highlights that a significant proportion of manufacturing firms in Uganda operate on a small scale, limiting their ability to benefit from economies of scale. To foster the expansion and productivity of these small firms, it is imperative to address the obstacles related to scaling up production. One highly effective strategy involves fostering partnerships between multinational enterprises and local manufacturers. By promoting these linkages, Uganda's manufacturing sector can experience accelerated growth, heightened competitiveness, increased import substitution, and improved integration into the global export market.

The proportion of manufactured imports compared to overall merchandise imports in Uganda decreased from 68% in 2009 to 52% in 2020, indicating a consistent trend of import substitution over the past decade. This trend was further reinforced during the Covid-19 pandemic, highlighting the success of Uganda's import substitution strategy.



Manufactured Imports (% of merchandise imports)

Data source: World Bank

Recognizing this achievement, President Yoweri Museveni announced that Uganda would adopt an inward-looking import-substitution approach in the post-Covid-19 era. In televised national addresses and the June 2020 State of the Nation Address, the President emphasized the need to transform the pandemic's challenges into an opportunity by leveraging the country's significant import expenditures to boost domestic manufacturing capacity.

The National Industrial Policy 2020 and the third National Development

Plan (NDP III) identify import substitution as a key development strategy for enhancing Uganda's manufacturing capacity. These policy frameworks propose the establishment of various industries such as motor vehicle and electronic product assembly, pharmaceuticals and chemical products, machinery, electronics, iron and steel, textiles and apparels, footwear, plastics, paper, ceramics, and others. These represent the most imported products in 2021, as depicted in the tree map below.

Source: Observatory of Economic Complexity

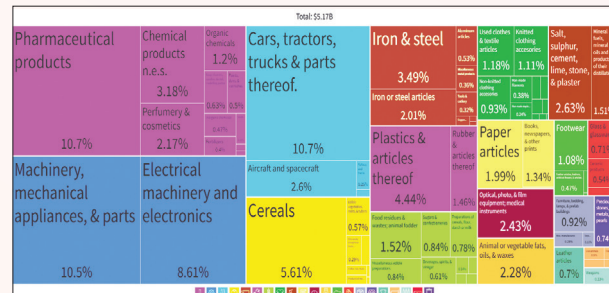


Figure 5 : Composition of Uganda's Imports 2021

Moreover, the percentage of manufactured exports in relation to total exports has also declined over the years, dropping from 34% in 2012 to 13% in 2020

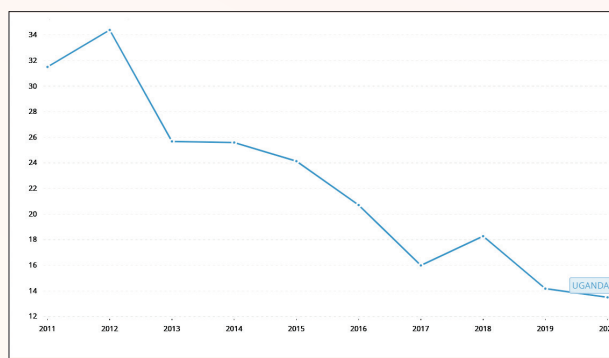


Figure 6 : - Percentage of manufactured exports in relation to total exports - Uganda
Data Source: World Bank

This decline can be attributed to two factors. Firstly, the growth in the manufacturing sector has been driven primarily by small and medium-sized enterprises (SMEs) that produce low-value-added goods, which do not meet the standards required for export markets. Secondly, there has been a significant increase in the export of gold and coffee, which are non-manufactured products. As a result, the combined contribution of gold and coffee exports has risen from 19.13% in 2012 to 71.3% in 2021. It is important to highlight that the combination of coffee and gold accounted for a significant portion, specifically 73.91%, of Uganda's exports. This observation suggests that the current composition of Uganda's exports closely resembles that of 1995.

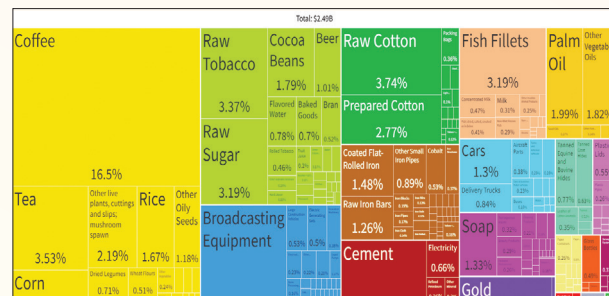


Figure 7: Composition of Uganda's Exports - 2012
Source: Observatory of Economic Complexity

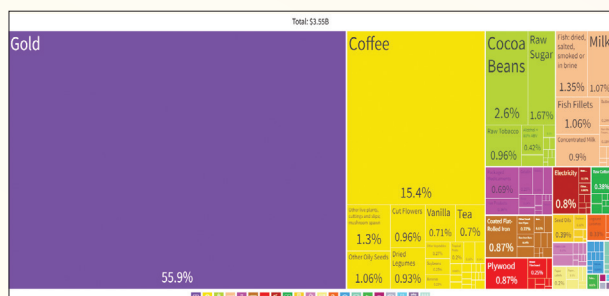


Figure 8: Composition of Uganda's Exports - 2021
Source: Observatory of Economic Complexity

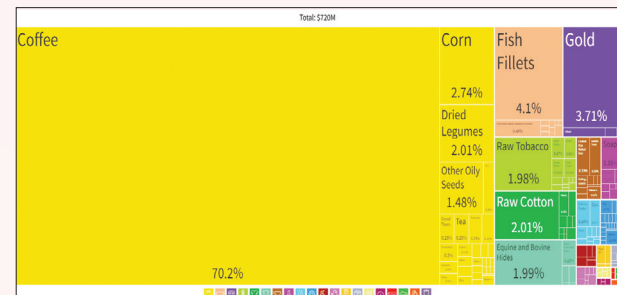


Figure 9 : Composition of Uganda's Exports - 1995
Source: Observatory of Economic Complexity

Throughout its history, Uganda's industrial development has been shaped by government interventions, policy reforms, and infrastructure investments. However, challenges such as limited transfer of knowledge, political disruptions, and energy deficits have hindered progress. Moving forward, it is essential for Uganda to address these challenges and implement strategies to promote innovation, improve productivity, and enhance the competitiveness of the manufacturing sector. By doing so, Uganda can lay a stronger foundation for sustainable and inclusive industrial development, contributing to the country's long-term goal of becoming a modern and prosperous nation.



Mabale, Mpanga, Kayonza and Kigezi



UDC Regional Investments