Policy brief
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Improving Uganda's trade performance to spur economic growth

In brief

- For most of the previous decade, Uganda's export base has remained undiversified and dominated by a small number of raw commodities. Specifically, the performance of the manufacturing sector has stagnated for most of the previous century.
- Trade and export promotion have therefore been identified as an area of active policy intervention by the government.
- This policy note presents 13 key policy recommendations for inclusion in the Ugandan National Budget including reducing the cost of doing business, improving trade policy, and leveraging the country's development institutions.

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Introduction

Improved export performance remains a key objective for facilitating broad-based economic growth in Uganda. For most of the previous decade, Uganda's export base has remained undiversified and dominated by a small number of raw commodities. Specifically, the performance of the manufacturing sector has stagnated for most of the previous century. Trade and export promotion have therefore been identified as an area of active policy intervention by the government. At the IGC Economic Growth Forum in Kampala, which was conducted jointly with the Uganda National Budget Conference FY 2019/20, a dedicated session on "Trade and Marketing" considered possible ways to overcome constraints to increasing Ugandan exports and harness trade as a driver for economic growth.

The session was chaired by Mr. Gideon Badagawa (Executive Director, Private Sector Foundation Uganda) and featured discussants from Trademark East Africa (Ms. Damalie Ssali) and the Kampala City Traders Association (Mr. Everest Kayondo, Chairman). Presenters included Mr. Paul Brenton (World Bank), Mr. John Spray (University of Cambridge), as well as the Honourable Minister of Trade, Industry and Cooperatives of Uganda, Ms. Amelia Kyambadde. Mr. Emmanuel Mutahunga (Acting Executive Director, Uganda Development Corporation) was nominated to act as rapporteur for the session and present the resulting recommendations to the afternoon plenary discussion for consideration in the national budget.

How to harness trade as a driver of economic growth?

Mr. Paul Brenton (World Bank) delivered a presentation entitled Diversification into Export-Oriented Manufacturing in Uganda. His key point was that to secure more and better jobs and in order to protect the Ugandan economy against price swings and adverse demand shocks in overseas markets, a diversification into exporting manufactures (rather than a concentration on primary products) is crucial. He pointed out that currently Uganda's export basket is undiversified and that Ugandan products only penetrate a small number of overseas markets and generally generate little value. With respect to constraints hindering increased exports of manufactures, he cited the following factors: high trade costs, a common external tariff (CET) that is biased against exporters due to high tariffs on key intermediate inputs, the prevalence of non-tariff barriers (such as seemingly unnecessary certificates required to export) as well as the need to introduce competition in the transport and logistics sector. He concluded with the observation that the survival of exporting firms is as important as facilitating firm entry into exporting, but often overlooked by export promotion agencies.

The second presentation, Improving Domestic Supplier Linkages, was given by Mr. John Spray (University of Cambridge). He began his presentation by illustrating the degree of "connectedness" amongst Ugandan firms, employing the example of two single Ugandan factories being supplied by more than 100 supplier firms and serving more than 300 direct and 1,500 indirect customer firms. He combined this observation of existing linkages among Ugandan firms with two pieces of empirical evidence, namely: a) when Ugandan firms become exporters, they and their domestic suppliers become more productive, and b) sectors with more linkages to the rest of the Ugandan economy are the drivers of output and productivity growth in the country. He complemented these findings from Uganda with evidence from other countries suggesting that companies become more productive through increased usage of imported inputs and through selling to multinational companies. Concluding from this body of empirical evidence that improving linkages amongst Ugandan firms is an important tool for fostering economic growth, he suggested three actionable policies.

- First, Uganda could establish an anchor firm supplier programme, where smaller firms are supported to supply large foreign firms and exporters to spur growth through backward linkages.

- Second, domestic firms could learn from each other in organised peer-to-peer learning groups, where firms meet on a regular basis to discuss issues of relevance to their activities. Evidence from China suggests that these simple interactions lead to a significant productivity gains in participating firms.

- Finally, he argued for a supplier database that firms can access in order to overcome information asymmetries and identify suitable domestic suppliers. Ideally, this database would be linked to tax data from the Uganda Revenue Authority to ensure that only active firms are listed, that the type of products available from a supplier are apparent, and that other crucial information about a firm (e.g., exporter, importer, size) is publicly available.

The last presentation of the session consisted of **remarks by the Honourable Minister of Trade, Industry and Cooperatives, Ms. Amelia Kyambadde**. In her presentation, she gave an overview of strategic interventions by her ministry for the period 2016/17 - 2020/21. Specifically, she discussed Border Export Zones aimed at promoting regional cross-border trade in particular of SMEs, targeted investments in key priority sectors through the Uganda Development Cooperation (agro-processing, mineral processing), the implementation of the National Export Development Strategy aimed at promoting key products and their access to foreign markets, the Rural Development Strategy, as well as strategies focussed on promoting cooperative development.

Discussion and debates

The discussions following the presentations centred around the following topics:

The importance of lowering transport and trade-related services costs. For instance, the regional director for TradeMark East Africa, Ms. Damalie Ssali, argued that measures aimed at improving high transport and logistics costs are crucial to improving Uganda's export performance: in her account, One-Stop Border Posts have led to a 70% decrease in the time required to clear goods and should be implemented at all Ugandan borders. Generally, she endorsed an increase in competition in the transport and logistics sector to reduce the cost of trading in Uganda.

Debate on non-tariff barriers, licenses, and certificates. A representative from the sugar industry complained about having to obtain certificates and licences on a regular basis to be able to export legally. Min. Kyambadde argued that sugar is a political commodity and these measures are necessary to ensure the domestic market is saturated before exporting can be allowed (e.g. in times of surplus production).

The need to help local suppliers exploit the local content bill under the Buy Uganda Build Uganda (BUBU) policy. The capacity of domestic firms to exploit the local content bill is low and potential suppliers often do not meet the required standards.

The Uganda Trade Portal. The Uganda Trade Portal will go live in November 2018 and will provide information and electronic copies required for trading in Uganda. The portal could function as a platform for a domestic supplier database.

How to increase survival rates of exporters. There is need to start a debate on how to work towards increasing the survival rates of Ugandan exporters once they enter foreign markets.

Recommendations for inclusion in the National Budget

The presentations and following discussions led to the identification of the following 13 key policy recommendations to facilitate increased Ugandan exports. The recommendations were presented to the plenary discussion hosted by the Honourable Minister of Finance by Mr. Emmanuel Mutahunga (Acting Executive Director, Uganda Development Corporation) for consideration for inclusion in the National Budget.

1. **Reduce the cost of doing business.** Focus on infrastructure, freight costs, governance, energy, and regulatory compliance.

2. **Diversify both export markets and products for better results from export growth.** Entry into markets is essential but survival in the markets is important as well – survival is more likely if firms export to the region first. Government should support firms to achieve this, e.g., through helping the matching process between firms by providing information on suppliers.

3. **Focus on exploiting available overseas export markets.**

4. **Scale up manufacturing abilities and address all hindrances to growth of the manufacturing industry with particular emphasis on agro industry and mineral processing.**

5. **Strengthen government involvement in strategic sectors to correct market failures particularly through the development institutions, e.g. Uganda Development Corporation (UDC) and Uganda Development Bank (UDB).**

6. **Foster inter-firm linkages through: peer-to-peer learning and partnerships for SMEs, anchor firm supplier programs, and helping local suppliers meet standards to benefit from the BUBU policy.**

7. **Uganda's trade policy should focus on having a CET that promotes export growth, addresses non-tariff barriers, implements trade facilitation measures, and reduces the cost of trade logistics.**

8. **Focus on cooperatives development because they are a key avenue for increasing production and productivity, value addition, and collective marketing.**

9. **Promote quality assurance and standardisation through partnerships with the private sector, improvement of quality assurance infrastructure such as laboratories, and extending services of the Uganda National Bureau of Standards (UNBS) beyond Kampala.**

10. **Focus on post-harvest handling.** This includes storage, drying, structured trading to stimulate further production, and construction of more warehouses.

11. **Build synergies and maximise efficiencies among stakeholders.** Consolidate financial, human resources, and information-sharing.

12. **Provide financing for both industrialisation and trade though capitalisation of the country's development institutions (UDC and UDB) immediately and not in the medium-term.**

13. **Build the capacity of local companies to enable them to benefit from government policy such as BUBU and local content policies.**