Uganda Bankers' Association

Promoting Partnerships. Transforming Banking.

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Unlocking the Potential of Uganda's Manufacturing Sector

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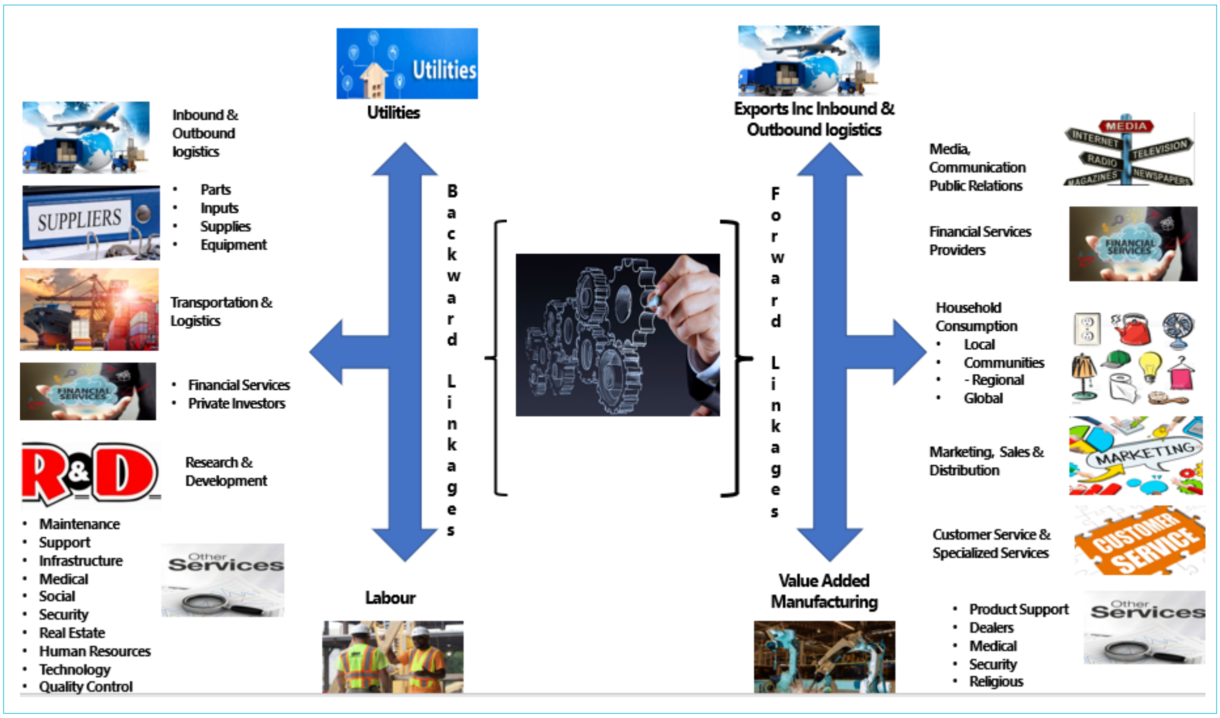
1.0 INTRODUCTION

Manufacturing plays a crucial role in economic growth and development, reflected in its contribution to Gross Domestic Product (GDP) and overall development. This will only grow over the next few years given its steady recovery from effects of COVID-19. The multiplier effect of manufacturing is exciting – every shilling of output in the sector generates levels of economic activity across society through its ecosystem, related value chains and job creation. No sector in Uganda does more to generate broad-scale economic growth and, ultimately, higher living standards than manufacturing.

Below are some of the manufacturing sector's backward and forward linkages.



According to the National Development Plan III (NDP III), manufacturing is essential for the growth of the country. It has a high potential for enhanced economies of scale for factor productivity and deeper, more dynamic, and stronger forward and backward linkages with other sectors. In addition, it has a greater diversification into a variety of economic activities - a robust manufacturing sector is expected to accelerate Uganda's industrialization agenda.

The manufacturing sector is a key engine of growth in Uganda due to its strong linkages and spill-over effects. In Uganda, the sector consumes a staggering 66.7 percent of all the power generated, contributes 18.6 percent to the GDP, 19 percent of the total exports to the global market and 14 percent of the tax revenue collected. The number of industrial establishments in Uganda increased from 80 in 1986 to 4,920 in 2019 and over 1.3 million people are employed in the Industrial Sector.

According to a report by the Uganda Manufacturers Association, the manufacturing sector is dominated by small and medium enterprises (SMEs), which make up 93.5% of firms operating in the sector. SMEs are the drivers of the Ugandan economy for they make up close to 90% of the businesses in Uganda. When the SMEs in Uganda, especially those in the manufacturing sector ecosystem are well supported and enabled to realize their potential, the employment levels of the country will improve, economic development of the country will be enabled, and financial inclusion as a goal will be achieved.

Despite the high growth rate, industrialization in Africa has barely taken root. For Africa to grow to the next level, it is critical to examine the reasons why the continent does not seem able to gather momentum for high value-added manufacturing activities – The sector has the potential to do better but needs to be deliberately supported in its efforts and on its journey**.** Although the manufacturing sector in Uganda has undoubtedly gone through a leap of developments in the last three decades, it has the potential to do better and needs to be supported to thrive leading to economic growth, job creation and poverty eradication which are key priorities in Uganda's social and economic development plan, "Vision 2040" (Rodrick, 2007, Szirmai 2016).

By addressing the ten strategic bottlenecks articulated in the National Industrial Policy (NIP), the government will enable and support industrialization in Uganda. The NIP goal is "increasing the manufacturing value-added as a percentage of GDP" and is designed to foster growth of the industrial sector anchored on inspiring structural transformation, with a principle focus on four result areas, namely:

(a) Increased value addition of local raw materials and products with comparative advantage for social-economic transformation.

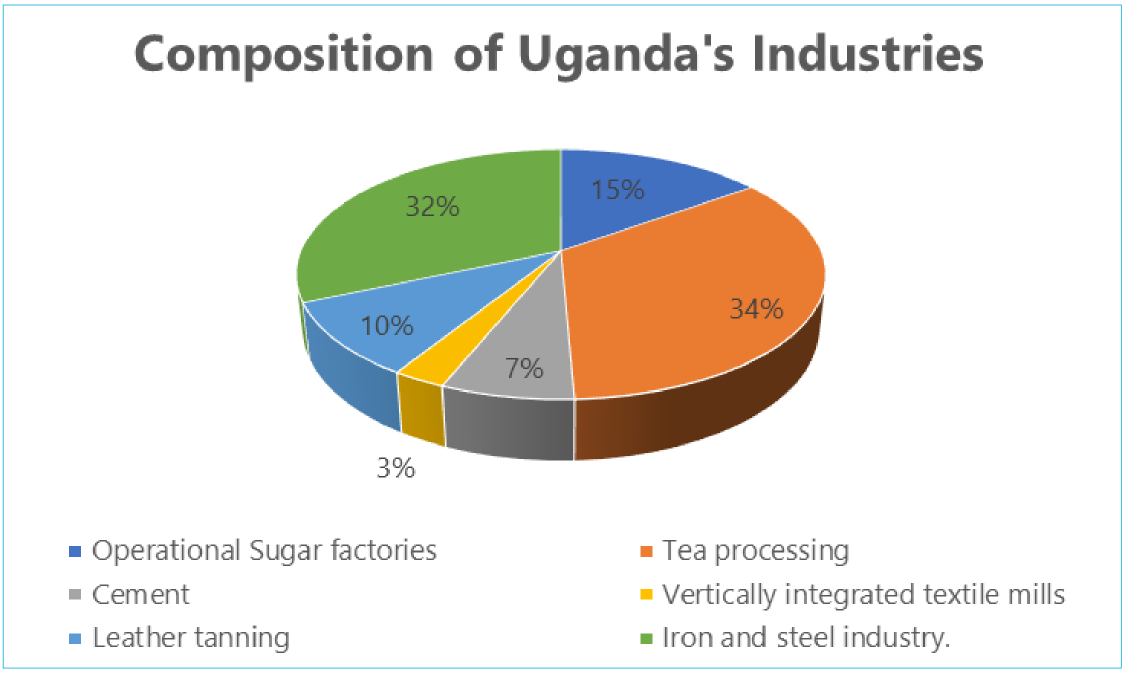
(b) Increased exports of manufactured products by facilitating industries to increase production and match market demands in terms of both quality and quantity.

(c) Increased employment in the industrial sector through establishment and promotion of industries that create large-scale employment opportunities, ensuring inclusive growth and sustainable development.

(d) Increased adoption of environmentally sustainable technologies by manufacturing sub-sectors.

2.0 COMPOSITION OF UGANDA'S MANUFACTURING SECTOR

Uganda's manufacturing sector is composed mainly of food processing, beverages, and tobacco, saw milling, paper and printing, bricks and cement, steel and metal products, textile clothing and footwear, chemicals, petroleum and other chemical products, non-metallic minerals, among others.



The manufacturing sector in Uganda mainly engages in end-product value addition, assembly, raw materials processing, producing low value-added goods such as food and beverages, wood & wood products, textiles, leathers, and metallic and non-metallic fabrication - Agro-processing accounts for 60% of the manufacturing sector in Uganda. The food processing, drinks, and beverages sub-sector alone accounts for nearly two-thirds of the total manufacturing output. This is again a common characteristic of the manufacturing sector across the East African Community (EAC), where food and beverages sectors account for approximately two-thirds of the total manufacturing capacity (Mold, 2017, UMA Business Directory 2019).

According to the Food and Agriculture Organization, Uganda's fertile agricultural land has the potential to feed 200 million people. 80% of Uganda's land is arable but only 35% is being cultivated. This confirms Uganda's potential as the regional food basket, and its ability to produce relevantly to the wider developed world. As a predominately agricultural country (agriculture accounting for about 22% of GDP, and 34% of export earnings in 2018/2019), for widespread development to occur, the agricultural economy including its value chains must be appropriately supported to ensure the country is well positioned as a supply base for the region, and use proceeds and income to improve services, households' income and livelihoods across the country.

3.0 MANUFACTURING SECTOR DEVELOPMENT PRIORITIES AND SUPPORT IN NDP III

The goal is to increase product range and scale for import replacement and improved terms of trade by increasing the share of manufactured exports to total exports from 12.3% to 18%; the contribution of the industry to GDP from 18.6% to 25%, the share of manufacturing jobs to total formal jobs from 9.8% to 10%; the share of labour force employed in the industrial sector from 7.4% to 10%; and the manufacturing value added as a percentage of GDP from 8.3% to 10%.

Further, the key areas of support as articulated by NDP III include:

(a) Nurturing manufacturing which requires affordable long-term financing in order to produce products at competitive prices.

(b) Support system to nurture innovations to commercialization which is key to manufacturing.

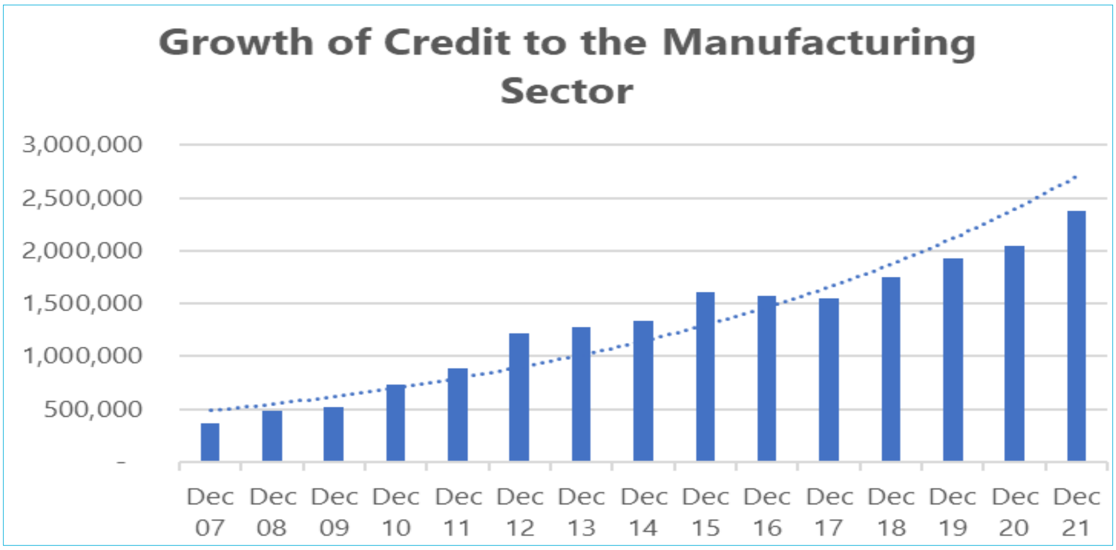
(c) Progress in ease of doing business to unlock the manufacturing potential.

(d) Ensure a conducive legal framework to support and promote manufacturing.

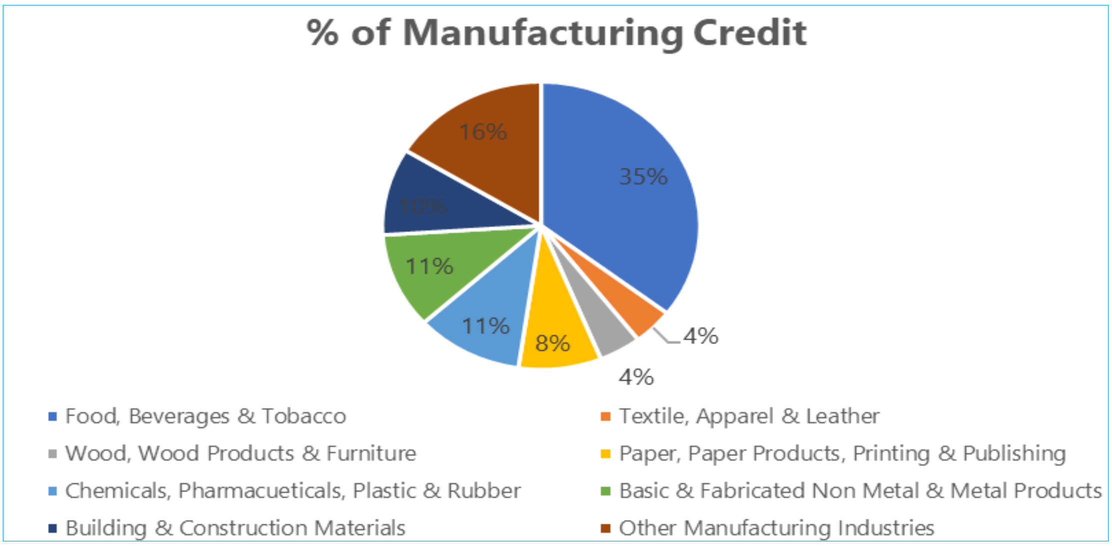
(e) Construction of 4 fully fledged industrial parks to foster industrialization.

4.0 FINANCIAL INSTITUTIONS LENDING TO THE MANUFACTURING SECTOR IN UGANDA

According to the Bank of Uganda (BOU) reports, in the 15 years period, credit to the manufacturing sector grew from Ugx. 364bn to Ugx. 2.4tn; a 553% growth. The manufacturing sector accounted for 12% of total bank lending by the end of December 2022.



Food, beverages, and tobacco account for 35% of the total bank lending to the manufacturing sector, followed by chemicals, pharmaceuticals, plastic & rubber products and basic & fabricated non-metal and metal Products which account for 11% each of the total lending to the manufacturing sector, as shown in the figure below.



5.0 UNLOCKING THE POTENTIAL OF THE MANUFACTURING SECTOR DURING THE COVID-19 RECOVERY PERIOD

The manufacturing sector was devasted by extended impact of Covid-19 across its value chain. There were disruptions in manufacturing leading to severe operational, social, and financial consequences. This forced manufacturers to rethink risk management and contingency plans, workforce safety protocols, manufacturing operations and new ways of working opportunities, all at the same time. Given that most companies in Uganda import their raw materials in the form of semi-finished goods, production stage inputs or even capital goods that aid production, they were greatly affected since production was scaled or stopped altogether due to supply chain challenges.

The manufacturing sector is still recovering from production shocks caused by supply chain disruptions, limited access to materials, repayment of loans with no production, shifting production patterns due to disruption of workplans for factory work, cost of transporting staff and safety measures undertaken by staff, and above all, a reduction in the addressable market for manufactured products.

The financial sector can support the unleashing of the potential of the manufacturing sector through engaging, understanding the sector better, and providing the required support, products and services in the way and manner they are most needed and impactful, to the customers and businesses that are ready, willing to ready themselves and are available to receive the said credit and support.

The support that Supervised Financial Institutions (SFIs) can offer the manufacturing sector can be both during normal business operations or when the businesses are distressed or facing financial and operational challenges.

Below are some of the support and interventions being provided by SFIs to businesses in distress and need support in recovery.

(a) Provision of debt financing, top up financing (short term, medium term and long term), lower cost funding in partnership government and development partners e.g., the Small Business Recovery Fund.

(b) Debt restructuring, monitoring, and recovery support.

(c) Review of interest rates, interest and cost waivers, removal or suspension of penalties and provision of concessions

(d) Provision of training, coaching, mentoring, advisory, and business development services.

(e) Regular customer engagements and candid, guided communication and feedback aimed at business recovery.

(f) Provision of the right products and appropriate credit structures for the different customer segments.

(g) Lobbying for financing and risk guarantee support and funds from government and development partners.

(h) Partnering with other funders, risk mitigation agencies, for alternative modes of financing.

6.0 POTENTIAL AREAS FOR FURTHER SUPPORT TO ENABLE RECOVERY OF THE MANUFACTURING SECTOR

The potential areas for further financial sector engagement and support to the manufacturing sector are shown below:

Focus	Details
Product Development	With the better understanding of the manufacturing sector and the risks thereto, development of appropriate financial products that will support the relevant sub sectors, seasonality, and peculiarities, when and how they are needed.
Loan Provision	Provision of affordable well-structured loan products to players within the manufacturing value chain with a focus on development and sustainability.
Data collection, collation, and analytics	Deliberate collection, dissemination and sharing of information that will enable better decision making, understanding and improvements in respect of sector. Better data enables better understanding, building of risk profiles and better and different ways of lending (Markets, Production dynamics, etc).
Capacity Building and Business Development Services	The manufacturing sector can benefit from capacity building and business development services purposed to sustainably improve the way the businesses are run. Key development initiatives include business planning, governance, compliance, bookkeeping, networking, among others.
Technology and Digitisation	The financial sector has significantly improved in the number and quality of digital channels over the last few years. This improvement will allow the businesses in the manufacturing sector to access the bank services and get the relevant information they need digitally, removing the need to access the banks physically. Going forward, physical visits will be used for value added & advisory services to the businesses rather the mundane activities like statement requests, cheque banking, withdrawals, payments etc.
Capital Market Development	Collaboration to ensure the expansion and deepening of the financial sector which will enable the access to a wider variety of funds including equity funding to the economy and sector, as well as patient capital which is instrumental to the development of the manufacturing sector.
Sustainable Industrialisation	The manufacturing sector has a potentially large impact on climate change. Supporting the sector through responsible financing will ensure climate resilience, reduction on the environmental impact and sustainable manufacturing.

Financial Services Providers that successfully build the capabilities for the long term to foster relationships with their customers and help them manage their obligations will be better equipped to reduce credit losses while helping their clients navigate the most volatile economic crisis in recent decades. Across all options for providing debt relief, the ability to tailor solutions to individual customers will need to be balanced with the associated operational complexity. Finding the right balance between offering flexibility vs organizational demands, will be essential for success.

7.0 GLOBAL MANUFACTURING OUTLOOK AND TRENDS

The manufacturing sector is eyeing growth with optimism in 2022 onwards...

There is global optimism for a sector, which has shown itself to be resilient and nimble and has weathered the challenges occasioned by the COVID-19 pandemic including increased and changing risk, changes in ways of work, skilled labour shortages, and digital transformation & innovation.

Key observations in the outlook include:

(a) **Global manufacturing will rebound** - The key factor governing how quickly the manufacturing sector recovers is the ability of companies to re-mobilize complex multi-country supply chains, which in turn will depend on their supply chain mapping and risk management.

(b) **Re-making Supply Chains beyond the next disruption** - Supply chain strategies will need to become multi-pronged, adding, and diversifying suppliers in existing markets. Digital supply networks and data analytics are powerful enablers for more flexible multitiered responses.

(c) **More resources and rigor in advancing sustainability** – including rise in environmental, social and governance factors which are redefining and elevating sustainability than before. There is a need for increased engagement with a wider set of stakeholders through disclosure, increased environmental accountability, performance reporting, and close monitoring of manufacturers.

(d) **Rising Threats and New Levels of Preparedness** – With the increasing automation in the manufacturing sector, there has been an increased threat of cyber-attacks. Relevant investments in cyber security for internal and external security should be made to ensure the relevant manufacturers are well protected.

(e) **Turning Risks into Advantages** - Manufacturers are consistently building back despite challenges and are adapting the challenges to the future of work. There is increasing supply chain resilience and digital maturity which will help manufacturers keep pace and drive performance whilst navigating elevated risks and advancing sustainability priorities for the longer term.

(f) **Acceleration in Digital Technology Adoption** - Need to embrace digital capabilities in order to capture growth and protect long-term profitability and visibility of big data. There is a call to scale up from isolated in-house technology projects to full production lines or factories including advanced manufacturing and use of robots & cobots, and increased investment in artificial intelligence.

(g) **Increased focus on customer service** - The continued integration of technology with manufacturing makes service more important. As data collection and monitoring tools become more commonplace, customers will have more visibility into production status via dashboards - push for ever-improving performance and quality will increase tenfold.

(h) **Workforce Shortage** – Unfilled specialized jobs will limit productivity, growth, and efficiency, making reskilling and rebranding key result areas. Executives will need to balance goals for retention, culture, employee safety and innovation whilst engaging with wider talent ecosystem partners.

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