



TIPS FORUM 2018

FINANCE AND INDUSTRIAL DEVELOPMENT

THE GROWTH OF INDUSTRIAL PARKS IN UGANDA. THE ROLE OF INDUSTRIAL POLICY AND INVESTMENT FINANCE.

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INTRODUCTION

- Industrialisation is critical in the transformation of any country into a modern industrial economy.
- Ntayi, Ggoobi, Wabukala (2017) consent that Industrial policies have been successful where governments had the political will and the capacity to implement them and have failed where governments are “captured by vested interests, leading to the industrial policies only supporting the rent-seeking political elite while distorting the efficient allocation of resources by market forces at the same time.
- Through the Uganda Revenue Authority (URA), government of Uganda has embarked on the provision of tax incentives to both domestic and foreign investors as one of the policies employed over the years to boost and attract investments in the country.

INTRODUCTION CONTINUED

- Basing on the SDGs of the United Nations (2016) and Goal 9 in particular that states: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation, countries world-over have come to realise the need for sustainable development including industrialisation with focus on the promotion of different industrial policies and incentives.
- This is ascertained by Ampurire (2016) who stated that the Government of Uganda is to establish at least 22 industrial parks under the National Industrial Park Policy, GOU (2011), with an effort to create jobs and ease land access for both local and foreign investors

OBJECTIVE OF THE STUDY

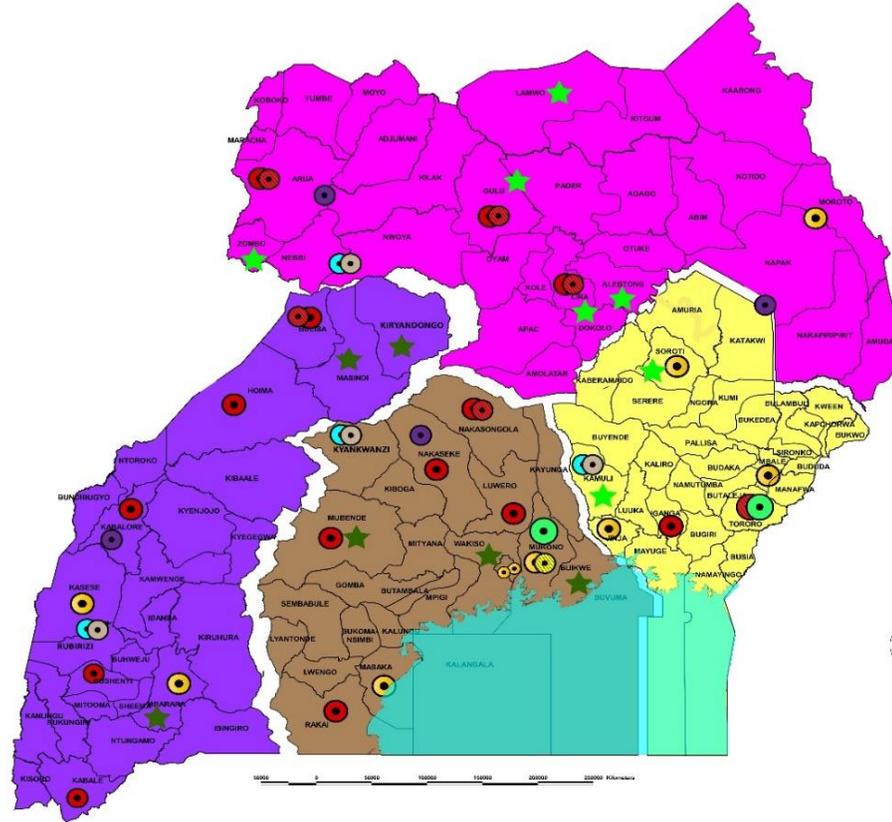
- The aim of this paper is to assess the influence of industrial policies and investment finance in spurring the development of the industrial sector in Uganda.

DATA AND METHODS

- This study relied on extensive document reviews on industrial policies and investment finance in spurring industrial development in Uganda. The main documents reviewed included, but not limited to, (1) The Uganda Vision 2040; (2) The National Development Plans (I and II); (3) The National Industrial Policy 2008, (4) The National Industrial Park Policy 2011 and (5) The 5 year Strategic Plan of the Uganda Investment Authority.
- Extra data on investment finance was sourced from the Uganda Investment Authority and it included data on industrial park investments, incentives, targets and achievements plus review of secondary data sources which included Ministerial Policy Statements, Investment Statistics, Public Investment Plans, and Project Documents.

STUDY AREA

UGANDA NATIONAL INDUSTRIAL PARKS DEVELOPMENT STRATEGY 2016 - 2021



LEGEND:

Regions within Uganda:

- NORTHERN
- EASTERN
- CENTRAL
- WESTERN
- Lake Victoria

National Industrial Parks Development:

- 8 Gazetted Industrial and Business Parks under Development
- 13 gazetted Industrial and Business Parks not yet developed
- 6 Industrial and Business Parks prioritized for Development, 2016-2021
- 2 Large scale Industrial and Business Parks specific to the Standard Gauge Railway (SGR) Project

- 4 regional Science, Technology and Industrial Parks each with German-model Multi-Skills Development Centers prioritized for development, 2016-2021
- 4 Regional Israel-model Agribusiness Technical and Vocational Skills Institutes prioritized for development, 2016-2021
- UIA acquired Agricultural lands
- Potential PPP investments in former GoU owned Ranches, Irrigation Schemes and Large Scale Agricultural Projects



Developed By:



RESULTS AND DISCUSSION

An Outlay of Uganda's Industrial Policy:

- Uganda's overall development strategy is spelt out in the National Development Plans (NDPI and NDPII) aimed at achieving the Uganda Vision 2040. Implementation however, remains uncoordinated and non-coherent, mainly because of its weak National Industrial Policy (NIP).
- In terms of performance, only about 30% has been executed mostly in policy formulation for the sugar, textiles, iron ore and cereals sub-sectors. However, Uganda's industrial policy of 2008 remains largely unimplemented and the economy's structure essentially unchanged.
- Uganda's current industrial strategy operates within a liberalized policy framework. Although a National Industrial Policy (NIP) was drafted in 2008, and later operationalized by a National Industrial Sector Strategic Plan, it has been haphazardly implemented.

Industrial Policy and Parks in Uganda (How industrial policies and other incentives have influenced industrial park development in Uganda)

- The policy vision of the NIP is on agro-processing: food processing, sugar, dairy products, leather and leather products, textiles and garments, and value addition in niche exports with much less emphasis on the operationalization of industrial and business parks.
- NIP acknowledges a need for formulation of supporting policies, if it is to be effectively implemented. These include: industry financing, labor management, small and medium enterprises mobilization, subsector policies and standards regulation policies among others.
- Although about 30 percent of the NIP is reported to have been achieved, none of the set targets has been met. The targets are 25 percent contribution of manufacturing to total GDP (current performance is 7 percent); 30 percent contribution of manufacturing to total exports (current is about 4.2 percent) and 30 percent value added in industry (current is 20 percent). Similar studies have found that the NIP has had no tangible impact. There is also no evidence that implementing agencies were ready and equipped to kick-start implementation.

Industrial Parks in the Ugandan Context

TYPES OF BUSINESS PARKS	Specificity
Air cargo Village	Business park dedicated to low volume but high value products, perishable products, products requiring fast turn-around.
Dry ports, Inland Container Depot (ICD), freight village, Logistics parks, Logistics platforms	Dedicated to logistics-intensive activities: warehousing, freight forwarding, breaking bulk, Container freight station activities.
Intelligent parks, Intelligent buildings, ICT parks, Cyber cities.	Dedicated to export-oriented Information and Communication Technology activities: BPO, ITES, Call centers, DRC requiring high bandwidth.
Science parks and Knowledge parks	Dedicated to research & development intensive activities.
Industrial parks	Dedicated to the manufacturing sector.
Product specific parks	Food and agro processing parks, seafood cluster, flower parks, etc.

Issues addressed in the National Industrial Park Policy (2011) for investors.

- **Access:** The ease with which land is availed, the credibility of land-owner, length of lease period, and terms and price conditions; This has prompted government to gazette industrial parks for investments and fasten development by investors.
- **Security:** The ease of getting the property rights in the land and the ability to use those rights to secure bank loans for industrial financing.
- **Use:** The speed and the cost price at which the investor can obtain all the permits for construction/project development and related activities in the usage of the land; The UIA has opened a One Stop Center for investors to be able to access all the permits and requirements they need in one area.
- **Consistency of treatment:** Are the investors' competitors treated in the same way? The issue of consistency of treatment of all investors much as is complicated, has been handled through establishment of industrial parks where all investors assemble and enjoy similar benefits such as infrastructural facilities, land, access to information as well as free market zones in some of the areas.

Investment Financing/Incentives. What financial incentives are given to investors?

- **General Incentives.** Through the establishment of different parks across the country, government is trying to provide a benefit to investors to reduce their establishment costs in terms of infrastructure and serviced plots. Majority of the industrial parks have amenities such as roads, water, electricity etc.
- **Specific Incentives.** In an effort to promote investments in the identified priority sectors and in disadvantaged regions of the country, Government intends to provide a package of non-fiscal incentives for given industrial parks to a category of investments in the priority sectors locating in those parks.
- **Tax Incentive Regime.** Tax incentive regime includes mainly waivers on imported inputs for producing export products. These include, manufacturing under bond and VAT refunds. There are also initial capital allowances and deductible annual allowances for foreign investors.

Investment Incentives under the National Industrial Park Policy

- **Special Incentives for Developers.** The Free Zones Bill was passed by Government and is now before Parliament for approval. This Bill is expected to put in place special incentives for industrial park developers. Other commercial laws are also to be enacted to enhance investment opportunities in the park and the country at large. An EPZ law will provide for the development of manufacturing activities for the export market.
- **Incentives Applicable to Export Processing Zones and Free Ports.** Tax incentives which will benefit persons engaged in the exportation of finished consumer and capital goods include. A 10-year tax holiday to companies engaged in value added exports, withholding tax exemption on interests, raw materials and plant & machinery, stamp duty exemption on increase in share capital and mortgages, duty and tax exemptions on raw materials and plant & machinery.

Illustration of some of the industrial parks and their incentives.

Park name in Uganda	Investment financing			
	General incentives	Specific incentives	Tax incentives	Special incentives
KIBP	Serviced Land i.e. roads, electricity, water, OSC, rail line, EPZ	Tax waived on machinery,	10 year tax holiday for companies in ICT, Tourism and Agro-Processing, mineral enhancement, VAT refunds	Free investment license for foreign companies with investment capital above US\$ 100,000 (Foreign firms) and US \$ 50,000 (Local firms).
Bweyogerere	Serviced Land	Tax waived on machinery	10 year tax holiday for companies in key sectorial areas, VAT refunds	Free investment license
Mbarara	Land, OSC	Tax waiver		
Soroti	Serviced Land	Tax waiver, PPP		
Jinja	Land, access roads opening		10 year tax holiday for companies in key sectorial areas, VAT refunds	Free investment license
Arua	Land available			
Kasese	Land available			
Luzira	Serviced Land with water, electricity and full access roads	Tax waiver for some industries.	10 year tax holiday for companies in key sectorial areas, VAT refunds	Free investment license
Tororo	Land			EPZ, special market access
Karamoja IP	Still at approval stage			
Rakai IBP	Under developed			

How Industrial Policy and Financial Incentives have influenced the development of Industrial Parks, a case of KIBP.

- The performance of Uganda's principle industrial park, Kampala Industrial and Business Park, which is supposed to be the epitome of the adopted industrial park policy 2011 as well as the driver to the next stage of industrialization despite numerous challenges has indicated that when fully appreciated through investments and incentives, Industrial parks have the momentum to spur economic development of any country.

Priority industry clusters:

- 1. Agro-processing (including food and beverages)
- 2. Freight Village (Transport & Logistics)
- 3. Building, Construction and Manufacturing Industry
- 4. ICT/Business Process Outsourcing

Outlook of Kampala Industrial and Business Park

Sector	No. of firms	Percentage	No. of jobs	Percentage
Heavy Manufacturing	9	30	2410	38.9
Light Manufacturing	7	23.3	770	12.5
Agro-processing & packaging	5	16.7	1235	19.9
Institutional	3	10	380	6.1
Logistics/ Warehousing	6	20	1400	22.6
Residential Units	0	0	0	0
Truck Parking Yard	0	0	0	0
TOTAL	30	100	6195	100

Role of industrial policy and financial incentives in spurring industrial development. Case of KIBP.

- **Infrastructural Development.** The government has been and is continuously investing significant shares of its budget on infrastructure developments in the transport and the energy sectors, hoping that improved infrastructure will trigger wider economic reforms.
- **Enhanced revenue and taxes for government.** Currently 16 companies out of the top 100 tax payers in Uganda are resident in the industrial parks. Collectively these 16 companies alone are paying 310.8 Billion shillings annually.
- **Introduction of new research technologies.** Presence of industries within KIBP has helped spur industrial development by attracting new technologies like the new modern re-bar steel plant by Roofings Ltd and the single HIV anti-retroviral pill by Quality Chemicals
- **Investor security of tenure.** The serviced industrial parks, KIBP inclusive serve as dedicated areas for industrial development purposes offering the investors secure land options for establishment of their investment projects and financial acquisition.
- **Balanced national development.** Presence of several Industrial Parks ensures balanced national development based on regions. Hence, each traditional region of Uganda will have a vortex or regional node of industrialization, job creation, wealth creation and transformation.
- **Improved land use planning and zoning hence efficiency.** It is envisioned for the development of industrial parks to inculcate the culture of planning and zoning of industries hence enhancing proper land utilization.
- **Entrepreneurship Skills Development.** Through the entrepreneurship skills development projects where portions of land within Industrial Parks are allocated for SMEs, UIA has contributed towards a sustainable and competitive private sector in Uganda where in the last 8 years close to 20,000 SMEs in 75 districts all over Uganda have benefited from this initiative.

CONCLUSION

- Design and implementation of industrial policy in Uganda still has a long way to go. This has been attributed to a number of factors among which are Uganda's weak and incoherent policy framework, limited technical capacity among implementers, governance challenges, among other factors.
- More importantly, it is known that industrial policy succeeds when those with political power favor its implementation through creation of incentives generated by political institutions. Uganda seems to lack both the effective broad political will and strong institutions to back up its industrial policy and drive it to the next level.

RECOMMENDATIONS

- **Need for deliberate State investments intended to enable the private sector to develop.** “No country has ever industrialized, and certainly will not, with only a private sector-led growth strategy.
- **Harnessing technology, innovation, productivity, and linkages:** The government should invest in developing, financing, and strengthening linkages and collaboration between industrial research institutions (UIRI, UDC, UDB and UIA) and other industrial players. Funding and supporting the implementation and commercialization of outcomes from industrial research institutions is critically needed.
- **Government should invest in science, technical and vocational skilling of Ugandans.** “The greatest resource of a country is its people, not natural resources that tend to attract much of government attention and resources.

RECOMMENDATIONS CONT.....

- **Infrastructure development:** The government needs to scale up investment in the railway network to ease transport costs for imports and exports.
- **Provide affordable long-term finance:** The high interest rates charged on long term finance remains one of the greatest challenges for the development of the manufacturing sector in Uganda. Government needs to come in to support long term industrialization by providing low interest loans.
- **Reform the tax regime so that indigenous industrialists have advantage over importers of finished products.**
- **There is need for improvement of project implementation management to ensure that projects are ready, well thought through, and linked to others before committing government.**

THANK YOU