CSO Position on the FY 2018/19 Ministerial Policy Statement (MPS) for the Ministry of Trade, Industry and Cooperatives (MTIC)

April 2018

Introduction

Trade, Industry and Cooperatives is one of the key sectors that is instrumental if Uganda is to transform from a peasant to a modern and prosperous country within 30 years and thereby realize the Vision 2040. The sector is important in establishing backward and forward linkages between manufacturing and agriculture, creating employment and wealth, advancing technology, stimulating agricultural production and productivity, and export competitiveness and ultimately improving people's livelihoods.

Mandate of the Ministry of Trade, Industry and Cooperatives (MTIC)

The role of the MTIC in promoting structural transformation and development cannot be underestimated. As a key institution responsible for Trade, Industry and Cooperatives, the Ministry of Trade Industry and Cooperatives (MTIC) is mandated to develop and promote a competitive export-led private sector through accelerating industrial development for economic growth. Specifically, as per the National Development Plan 2 (NDPII), the core mandate of the ministry, along with its agencies, is to formulate, review, and support policies and programs aimed at promoting and ensuring expansion and diversification of Trade, Cooperatives and environmentally sustainable industrialization. This mandate is executed under different programs therein the Ministry i.e. Industrial and Technological Development; Cooperative Development; Trade Development; and MSME Development Programmes. The MTIC also derives its mandate from Uganda's commitments in the United Nations Sustainable Development Goals (SDGs) where among other issues Uganda commits to end poverty in all its forms by 2030; promote inclusive and sustainable industrialization, and raise significantly industry's share of employment and GDP. Key to also note is that MTIC's mandate is derived from the development challenges facing Uganda including addressing the ever increasing Trade Deficit (reported by the Bank of Uganda at USD 238.80 Million as of November 2017); addressing the ever increasing indebtedness (projected at US$ 10.74 Billion for the FY 2018/19) and tackling unemployment (currently estimated at 58%[1]) through creating gainful and decent employment and addressing rural urban migration through promoting forward and backward linkages between the Agriculture and manufacturing sectors.

More specifically, the following are the mandates of each key Programme under the MTIC:

a) **Industrial and Technological Development**: This Programme is responsible for policy formulation, planning and promoting the expansion, diversification and competitiveness of the industrial sector.

[1] https://www.newvision.co.ug/new_vision/news/1420713/census-unemployment-biting-hard

b) **Cooperative Development**: This Programme is responsible for policy formulation, planning and coordination; and promoting, strengthening and expanding the cooperative movement structure, diversity, operations and competitiveness for socially inclusive economic development.

c) **Trade Development**: This Programme is responsible for developing, coordinating, regulating, promoting and facilitating domestic and external trade with particular emphasis on export promotion and access to regional and international markets.

d) **MSME Development**: The objective of this Programme is to provide a focal coordination institution for formulating, implementing and monitoring policies and programs for the promotion and development of Micro, Small and Medium Enterprises (MSMEs).

In order to undertake its mandate, the ministry has a total vote of 60.822 Billion UShs (excluding Arrears) for the FY 2018/19 which amounts to 0.5% of the 29.274 Trillion UGX Budget for the FY 2018/19.This allocation is also lower than what was allocated to the Ministry for the FY2017/18 i.e. 64.593 Billion UShs. This allocation is still inadequate to enable the Ministry to either deliver on her mandate or to achieve her Medium Term targets.

Key observations, concerns and recommendations on the MTIC Ministerial Policy Statement for FY2018/19.

1. MTIC Budgetary allocations for the FY2018/19 are delinked from the NDPII. According to its 2018/19 Ministerial Policy Statement (MPS), the MTIC along with its Agencies will in the Mid Term implement a number of plans as provided for in the MPS for the FY2018/19. Although the objectives of the Tourism Sector Development Plan and the Trade, Industry and Cooperatives Sector Development Plan were derived from the NDP II objectives and related interventions, the sector remains far de-linked in fiscal terms form the NDPII. This is because over the years, funding for the sector has gone far below the one proposed in the NDPII as indicated in table 1 below:

Table 1: Actual allocations to Tourism, Trade and Industry sector viz a viz proposed allocations in NDP2

Financial Year	**2016/17**	**2017/18**	**2018/19**
NDP 2 Proposed allocations (Billions UGX)	**210.6**	**235.3**	**269.2**
Approved Budget allocations (Billions UGX) Excluding Arrears	**94.107**	**110.344**	**106.39*** (proposed)**

Source SEATINI Uganda computations.

2. The MTIC is mandated to coordinate with other line ministries so as to collectively work towards developing appropriate and enabling trade and trade related policies and regulatory

frameworks and ensuring their effective implementation. We acknowledge that there has been progress made by the sector in formulating a number of policies and regulations as indicated in the Ministerial Policy Statement (MPS) we would like to note the following.

a. The Anti-Counterfeiting Goods Bill 2015 has been withdrawn by Parliament to allow for further consultations.
b. At the EAC level, negotiations of the U.S-EAC Investment Cooperation Agreement; U.S.-EAC Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary Standards (SPS) Cooperation Agreement.
c. The EU-EAC Economic Partnership Agreement (EPA) negotiations are yet to be concluded.
d. The Continental Free Trade Area (CFTA) has been concluded and signed by Uganda Government awaiting implementation and negotiation of the second phase of negotiations. The second phase of negotiations includes issues like Investment, Intellectual Property Rights, and Competition.
e. The EU-Africa relationship under the Cotonou Agreement is slated to end in 2020. Negotiations for a successor partnership is scheduled to commence in September 2018.
f. The following trade related policies which are expiring in 2018 are under review i.e. the National Trade Policy, the National Industrial Development Policy.

All these processes need to be funded. And in case of Trade negotiations, the Ministry has to make sure that Uganda benefits from the opportunities they present while minimizing the risks.

3. Through the Uganda National Bureau of Standards (UNBS), the Ministry is expected to enhance and support enterprise and product competitiveness through ensuring their compliance with national, regional and international standards.

We acknowledge the effort that has been made by the Uganda National Bureau of Standards to develop and continue to enforce quality standards through capacity building at various levels amidst its limited resource envelop, limited equipment and laboratories and personnel to effectively spread their services across the country. Indeed, Development and harmonization of standards while ensuring product compliance to market standards will boost product competitiveness in national, regional and international markets which will subsequently reduce the ever increasing Trade deficit. However, in spite of the continuous standards challenges in Uganda especially in food, beverages, drugs and clothing, the UNBS, proposed allocation to the UNBS is at 21,573,000,000 for the FY2018/19, just like the previous FY2017/18. This allocation is not efficient to enable UNBS to raise awareness of the business community, farmers, manufacturers and consumers about standards compliance; train people, both farmers, manufacturers and traders about standards; harmonise national standards with regional ones to facilitate access of Ugandan products in regional markets; and establish and furnish structures for UNBS in at least 10 key districts to ensure that testing, standardization and certification services are brought closer to private sector engaged at the district level.

Uganda has continuously had challenges of accessing the EU Market due to lack of conformity and compliance to sanitary requirements and has since 2015 been instituting self-imposed bans on fresh fruits and vegetable exports to the EU. This has resulted into reduced exports by the country, which has affected the incomes of exporters and the producers along the value chain. The UNBS has a critical role to play in addressing such challenges.

4. Through the MSMEs Directorate, the ministry is expected to nurture the private sector especially Micro Small and Medium Enterprises for their increased competitiveness. . However, while the expectations from this directorate are immense given the untenable situation of Uganda's SME sector, it will require greater financial investment in order for the ministry to deliver the objectives of the directorate.

5. The ministry is also required to support Local Economic Development through 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. The General Annual Performance Report (GAPR) 2016/2017 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. This allocation is not sufficient enough to enable the ministry cover all the Districts with DCOs despite their critical role in the local economic development including enhancing household incomes to address poverty.

6. In order to enhance production and productivity, the ministry is expected to foster Industrial development and foster forward and backward linkages between Agriculture Sector and Trade and Industry. Through the Uganda Industrial Research Institute (UIRI) and the Uganda Development Cooperation (UDC); and through support from development partners, the Ministry of trade has been able to invest in the development of Teso Fruit factory in Soroti, Tea Factories in Soroti and Kabale and the Rural Industrial Development Program, Machining, Manufacturing and Industrial Skills Training Center in Namanve, Oil pilot project in Luweero, UIRI Handmade Paper Production Plant, among others. As per the MPS, the current budgetary allocation to cater for personnel costs, equipment and research is very limited to fully support the country's industrial development.

7. MTIC through the Uganda Export Promotions Board (UEPB) is mandated to enhance export trade to ensure balance of payment and to address the country's growing deficit. Uganda continues to register a high trade deficit reported by the Bank of Uganda at USD 238.80 Million as of November 2017. Therefore, despite a growth in the country's export earnings, the country has continued to suffer from the high import bill resulting into a growing trade deficit and Balance of payment deficit. This has further been worsened by its liberalized capital account which allows for foreign capital to be freely externalized. However, the current budgetary allocations may not fully support the much needed import substitution and export promotion strategy to regulate the country's import bill while enhancing its export trade for increased foreign exchange inflows. For example, the GAPR 2016/2017 report indicates the inadequacy of UEPB's presence and staffing at Regional Offices; Inadequate funding of export

promotional Services and Limited infrastructure such as ICT and other equipment to link with Ugandan missions to targeted markets in the same period. We note the critical role of Commercial Attaches in foreign missions and embassies in complementing UEPB's role in identifying new markets for more export opportunities. However, there is a much lack of presence of Commercial attaches in most Ugandan embassies and foreign Missions.

8. The ministry is also expected to strengthen the cooperative movement in Uganda for increased production and productivity, marketing and access to credit especially of agricultural produce. Building the cooperative movement is critical for enhancing household incomes thereby addressing poverty within rural livelihoods. The government through the Ministry of Trade together the Ministry of Finance has made an effort to support cooperatives around the country. While the Ministry has registered a total of 17, 062 cooperatives societies, however only a total of 380 Cooperative Societies have been supervised to ensure compliance to the Cooperatives Law and Regulations, 12 cooperatives were inspected to ensure compliance and proper management and governance, 10 Cooperatives were audited to ensure proper financial ability and reporting, investigations were undertaken on 4 cooperatives. The cooperatives sector is still an underfunded priority. According to the Ministry of Finance (2017), the sector continues to face a challenge of non-functional Cooperative Organizations, including lack of one-stop center facilities that can ensure effective storage, cleaning and drying of farmers produce.[2] These could be major hindrances to the development of cooperatives.

9. Through Uganda Development Corporation (UDC), the Ministry is mandated to promote and facilitate 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)[3]; 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)[4]; Tea Factories in Kyenjojo and Kanungu (procurement process for the supply, installation and commissioning of equipment is ongoing)[5]. However, according to the Ministry of Trade, Industry and Cooperatives annual Sector performance report 2016/2017, 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 of UDC.

10. Trade and trade related policies and negotiations are done at various levels i.e. at national, regional, continental, bilateral and multilateral levels. These negotiations and policy making processes should be in line with our National Development Aspirations.

Recommendations for planning in financial year, 2018/19

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

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

[4] Ibid

[5] Ibid

1. Budgetary allocation to the Ministry of Trade, Industry and Cooperatives should be made a priority sector given its role in the economic development of the country. The sector should therefore be allocated with more resources in line with the proposals in the NDPII. This is more so given the fact that the ministry houses key agencies like UEPB, UDC; UIRI; UDC which at the moment are underfunded.

2. There is need to increase budgetary allocations to the sector to finance trade and investment related negotiations to protect and promote our interests/positions, policy space and in order to be able to negotiate a conducive policy for industrialization and Trade. In order to facilitate more comprehensive ongoing trade and investment negotiations…and undertake more inclusive policy processes, there is need to budget for the Inter Institutional Trade Committee (IITC) (which is a Multi-Stakeholder consultation committee).

3. UNBS should be allocated with enough resources to raise awareness of the business community, farmers, manufacturers and consumers about standards compliance; and also train value chain actors within specific products. UNBS also has a critical role to harmonize national standards with regional ones to facilitate access of Ugandan products in regional markets. In order to increase its coverage, the UNBs should establish and furnish structures in at least 10 key districts to ensure that testing, standardization and certification services are brought closer to the value chain actors.

4. It is critical that funding for MSMEs be prioritized in order to: Train MSMEs in boosting value addition, for increased trade and competitiveness; enhance the capacity of MSMEs to benefit from the opportunities therein policies like Buy Uganda Build Uganda (BUBU) and Local Content; and engage MSMEs in policy processes pertaining to national, regional and global markets to ensure that their interests are taken into account.

5. With the EU funded District Commercial Services Support (DICOSS) Project ending, there need to be allocation of funding to continue this important work done by the DCOs.

6. The MTIC needs more budgetary allocation to strengthen the cooperative movement especially in enabling farmers come together to produce in bulk, add value and be able to effectively market their goods.

7. In order to ensure coherence in our trade negotiating positions and policies, the MTIC should take lead in trade and trade related policies and negotiations at all levels and also be in charge of all Trade related Agencies.

Conclusion

Uganda can trade and industrialize her way out of poverty into job creation, wealth and prosperity at national and household level. The Ministry of Trade, Industry and Cooperatives has a big role to play in the realization of this aspiration. However, the 0.5% of the Budget allocation to this ministry won’t support industrialization for Job creation and shared prosperity which is the theme for the FY2018/19 Budget.