

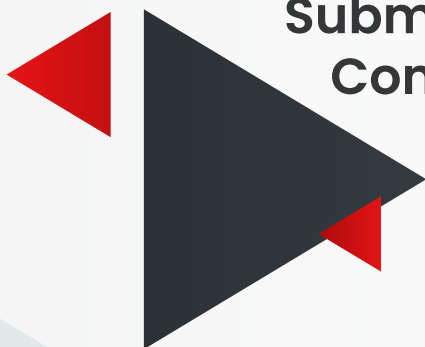


Strengthening Africa in World Trade



UGANDA'S ECONOMY AND COVID-19 PANDEMIC: IMPLICATIONS, LESSONS AND PROPOSALS ON A WAY FORWARD

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and Industry



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Introduction

The COVID-19 pandemic has disrupted supply chains and exacerbated existing vulnerabilities in Uganda. In a bid to curb the spread of COVID-19, the Government of Uganda put in place a number of measures including restrictions on transport and closure of non-essential businesses among others. This has greatly affected the country's economy and livelihoods as lives are being lost and unemployment rates continue to spike. Micro, Small and Medium Enterprises (MSMEs) which account for approximately 90% of Uganda's Private Sector, generating over 80% of manufactured output and contributing approximately 20% of the Gross Domestic Product (GDP)¹ have been hit most by the pandemic through the supply, demand and financial related shocks.

Due to the aforementioned measures, Uganda has faced a multi-layered crisis comprising of a health and debt burden, domestic economic disruptions, capital flow reversals, and disruption of value chains which have led to reduced demand and supply of goods and services and weaker commodity prices. With Uganda's GDP growth rate declining to 2.9% in FY 2019/20 from 5.7% that was realized the previous Financial Year, the need to resuscitate the economy has become pressing now more than ever.

However, it should be noted that even before the advent of the COVID-19 Pandemic, Uganda's economy has been faced with structural and systemic challenges which have over time undermined her efforts to achieve structural transformation and inclusive development.

These challenges have led to inter alia, the increasing unemployment; high poverty levels; marginalization of the most vulnerable;

inequality; unprecedented indebtedness (recorded at UGX 66.1 Trillion as at June 2021²); increasing social and economic human rights abuses, and environmental degradation. The country has also been faced with an ever increasing trade deficit (recorded at USD 322.17 million as of June 2021³) due to: continued primary commodity export dependence (low value addition) while importing high value added products; limited competitiveness and underutilization of domestic, regional and global markets.

Our observations, concerns and proposals on the way forward

We wish to acknowledge that the government of Uganda is undertaking a number of interventions in order to address the far-reaching implications of COVID-19 on the economy. Indeed, in order to resuscitate the economy Post-Covid-19, a number of policy and practice reforms and interventions have been proposed and some put in place. The interventions range from stimulus packages, import substitution and export promotion; the Parish Development Model among others. However, we wish to observe that unless a number of socio-economic policy reforms at national, regional and global levels are undertaken beyond the COVID-19 context, achieving the much-desired

Structural Transformation and Inclusive Development will remain a challenge. Such critical reforms include:

- a) Improving MSMEs Competitiveness in National, Regional and Global Markets. Despite the importance of MSMEs in terms of their contribution in creating employment and sustainable livelihoods, they still face a number of challenges competing in national, regional and global markets. Key of these challenges include:

¹ <https://www.ugandainvest.go.ug/wp-content/uploads/2016/02/Final-MSME-Policy-July-2015.pdf>

² https://www.ntv.co.ug/ug/news/business/uganda-s-public-debt-rises-15-1-central-bank-3488320?utm_medium=social&utm_source=twitter_ntvuganda

³ <https://www.ceo.co.ug/ugandas-trade-deficit-widens-as-economy-struggles-through-second-lockdown/>

- High cost of doing business due to limited access to viable finance by MSMEs.
- The underutilization of existing markets at National, regional and Global levels. This has been as a result of lack of relevant information and limited ability of MSMEs to comply with the set standards. For example, on 8th July 2019 and 30th December 2019, Germany notified Uganda about the rejection, detaining and destruction of sesame exports from Uganda due to contamination with salmonella. Furthermore, due to poor product standards, Uganda has undertaken self-imposed bans on chilli exports to EU both in 2015 and 2019 respectively.
- Over liberalization of domestic markets leading to the influx of cheap and subsidized products. This has even resulted into the collapse of a number of industries e.g. textile and leather industries.

For example, Uganda's Import Bill for Vegetables and certain roots and tubers stood at \$18m (US\$49b⁴) in 2020, while the country spent close to Shs50b on fish imports for the year ended December 2019 despite being one of the biggest fish producers in East Africa⁵. This mode of liberalization will most likely compromise the much needed Import Substitution Strategy.

- Unsupportive operating environment i.e. high cost of electricity and unsupportive tax policies which hinder MSMEs growth and sustainability.

- Increasing domestic borrowing by the government (currently at \$ 4.73 billion) which crowds out the much-needed credit that MSMEs could access as loans, thus stifling their growth and competitiveness.
- Constrained capacity of Government to regulate the private sector including the financial institutions. For example, most often Commercial Banks have ignored the set Central Bank Rate (CBR) thus hiking interest rates.
- As of April 2021, the total public debt stood at 66.1 trillion which is an increase of 15.1% from June 2020⁶.

Recommendations:

- Regarding access to viable finance for MSMEs, government should support MSMEs whose cash flow has been adversely affected due to the ongoing COVID-19 crisis.
- We recognize that Government has proposed and also put in place the economic Stimulus Packages⁷. These include: UDB Fund; Emyooga; the Parish Revolving Fund; tax deferrals and Loan extensions. However, these packages need to be assessed and redesigned accordingly to address the challenges faced by the MSMEs. Government should through the Ministry of Finance ensure transparency and accountability as well as carry out continued audit of the management and utilization of the stimulus funds disbursed to the different financial institutions for disbursement to the MSMEs.
- Government should, through Uganda

4 <https://www.monitor.co.ug/uganda/business/finance/ugandans-spent-shs49b-on-importing-vegetables-1888484>

5 <https://www.monitor.co.ug/uganda/business/markets/ugandans-spent-shs50-billion-on-importing-fish-1890904>

6 <https://www.bou.or.ug/bou/bouwebsite/bouwebsitecontent/publications/QuartelyStateofEconomy/publications/Quarterly-Economic-Reports/2021/Jun/State-of-Economy-Report-June-2021.pdf>

7 Please refer to our detailed paper on the Management of the Stimulus Package by relevant institutions; <https://seatiniuganda.org/download/civil-society-statement-on-the-management-of-the-stimulus-package-by-the-relevant-institutions/>



National Bureau of Standards (UNBS) popularize and enhance MSMEs capacity to comply with the relevant standards; enforce the distinctive (quality) mark to ensure that all locally produced goods are certified before being put on the market; and undertake 24/7 operations for both import inspections across all borders and market surveillance of goods destined for the market. UNBS should be allocated enough financial and human resources in order to inspect and train the business community, farmers, manufacturers and consumers about standards compliance and certification. A special fund to UNBS should be set aside specifically to fast track the standards and certification process for MSMEs. Government's plans to roll out free certification services to MSMEs in the Oil & Gas Sector should also be extended to MSMEs in other sectors.

- Through the Uganda Development Corporation (UDC), government intends to train and establish eight (8) Common User Facility centers whose major purpose is to facilitate high quality production for those MSMEs which cannot afford food-grade machinery. We commend this move, however, the centers should be increased in number and spread across the country and situated within communities. These facilities will reduce the cost of doing business as they are certified, enable MSMEs in meeting standards, ensure food safety, and address food waste through stimulating value addition since most food waste happens due to limited processing. This will also address the issue of post-harvest losses.
- We recognize that government through the Ministry of Agriculture intends to phase out the use of Glyphosate Based Herbicides. We call on MAAIF and Ministry of Trade to investigate the risks associated with the use of Glyphosate Based Herbicides, to put in place a legal framework that bans use of harmful pesticides like glyphosates in Agricultural production

and to implement the National Agricultural Chemicals Control Act 2021. This is critical in ensuring on-farm quality of raw exports like vegetables and also ensuring quality along the value chains. We applaud MAAIF for putting in place a Committee to study the effectiveness of Agro-Chemicals and Animal Health Products. We further recommend that this Committee works closely with the Ministry of Trade and also the Parliamentary Committee on Trade, Tourism and Industry.

- Government should reduce on domestic borrowing in order to improve the domestic finance landscape for the MSMEs through reducing competition with Government. In any case, domestic borrowing is very expensive for government as it contributes to the rise of the debt burden.
- Government should continuously improve the operating environment for MSMEs by addressing inter alia the high cost of electricity, putting in place a supportive fiscal regime and providing land concessions among others.
- Government through the Central Bank should ensure compliance to the Central Bank Rate (CBR) by the Commercial Banks. In the medium term, Government should rethink its role in the financial sector (banking, telecommunication and insurance), given the continued financial outflows through this sector, and the urgent need to mobilize resources for onward lending.

b) Policy reforms to support the resuscitation of the Economy Post COVID-19.

Favorable policy and legal environment are critical in nurturing and subsequently boosting private sector competitiveness, creating a strong industrial base and meaningful jobs, fostering technological development, increasing trade in value added products, enhancing standards



among others. As a measure to facilitate the much-needed import substitution and exports promotion strategies, Government requires a set of inter-related and mutually supportive policies. Currently, a number of policies such as the National Trade Policy; the Investment Code Act 2019 require review, whereas the Local Content Bill is yet to be passed. Furthermore, the current draft Industrialization Master Plan (2021-2025) needs critical review as it does not sufficiently promote forward and backward linkages between value addition and production.

Recommendations

- Currently Uganda does not have an updated National Trade Policy since the expiration of the Policy in 2018. This presents a challenge on what strategic direction the country should be taking regarding enhancing her trade competitiveness. Therefore, there is an urgent need for the Ministry of Trade to fast-track the finalization of the new National Trade Policy to respond to the current dynamics and challenges faced by the sector.
- Government should assent to and implement the Local Content Bill so as to support implementation of the Buy Uganda Build Uganda (BUBU) Policy. This should also ensure prioritization of Ugandan Citizens and Companies in Procurement most especially in the Oil and Gas sector. Under public works like construction of infrastructure, local content and BUBU should be ensured through use of local labor and local construction materials, which will subsequently stimulate and support micro and small business enterprises.
- Government should review the Investment Code Act 2019 to explicitly incorporate
- aspects of Human Rights, and also ensure the balance of rights and obligations among the Investors, Government,

Communities and the Environment.

- The prevalence and re-occurrence of Non-Tariff Barriers (NTBs) and trade tensions among EAC Partner States has made it challenging for Ugandans to maximize on the benefits of Regional Integration most especially intra-EAC Trade. Uganda registered a \$105.31m (shs374b) trade deficit in the East African Community region during May 2021 from a surplus of USD 932 Million in 2017/18; and USD 11 Million in FY 2018/19 in 2019⁸. EAC Integration has also been mired in trade wars including inter alia the Uganda-Rwanda Border closure; continued blockage of Uganda’s exports (Maize, sugar, eggs, milk, one day old chicks) by Kenya, and insecurity in South Sudan.

Recommendations

- Government of Uganda should engage EAC Partner States in resolving the NTBs, and should also resolve the rift with the Government of Rwanda.
- The EAC Treaty should be reviewed to address the current challenges facing the region rather than building momentum for the Political Federation For example, there is need to finalize the review of the Common External Tariff (CET) and put in place a robust Dispute Settlement Mechanism.

c) Ongoing Trade Negotiations and Agreements

Trade negotiations and agreements are a double-edged knife, on one hand they ideally open up markets to Ugandan products, but on the other hand they can open up our markets and also reduce the policy space within which Government can reg

ulate in public interest. There are a number of ongoing trade negotiations in which the

⁸ https://budget.go.ug/sites/default/files/National%20Budget%20docs/National%20Budget%20Frame-work%20Paper%20FY%202020-21_0.pdf

Government is involved. These include inter alia the African Continental Free Trade Area (AfCFTA); the EAC Common External Tariff; the EAC-COMESA-SADC Tripartite FTA; UK-EAC/Kenya FTA; USA-Kenya FTA, and World Trade Organization (WTO) negotiations. There are also other agreements which Government has concluded and have led to increased market access i.e. African Growth and Opportunity Act (AGOA); Everything But Arms (EBA) among others. However, there has been limited involvement of key stakeholders i.e. Private Sector, Civil Society Organizations, Policy Makers in these negotiations. There has also been limited utilization of the acquired markets.

Recommendations:

- The Inter-Institutional Trade Committee (IITC), an Inter-sectoral committee with a mandate to generate Uganda's Negotiating Positions, should be adequately funded to ensure adequate consultations on the ongoing negotiations. Furthermore, the Parliamentary Committee on Trade, Tourism and Industry should be timely briefed on the status of these negotiations so as to enable them undertake their oversight role from a more informed perspective.
 - The portfolio of Commercial Attaches should be strengthened in key Ugandan Missions abroad in order to promote commercial diplomacy for market intelligence, promotion and branding of Uganda.
 - There is need for Uganda to fund her own negotiations in order to protect and promote our interests, policy space and sovereignty. This is critical in supporting a conducive policy environment for industrialization and trade. The budget to the Trade sector should take this critical issue into account.
 - In the Ministerial Policy Statement for FY 2021/22, Government, through the Ministry of Trade intends to negotiate bilateral preferential market access with countries like China and India. We commend this move. However, the Ministry should clearly identify the products (quantity and Quality) to be traded in these markets. For example, Kenya negotiated with China an agreement to export Avocadoes to China which has led to reduction of levies on Kenyan avocadoes from 30% to 7%⁹. Kenya has also negotiated a market with France to export "Mondia whytei (mulondo)". Through emulating Kenya, Uganda could negotiate a "sesame agreement" with China whose monthly demand averages 1,000,000 tones. As the 5th largest producer of sesame (Simsim) in the world and the 2nd largest in Africa¹⁰, Uganda could therefore cash in this strategic crop. Moreover, this would help plug the ever-rising huge trade deficit between Uganda and China which amounted to US\$ 854.82 million (representing 32.89% of Uganda's total deficit) in FY2018/19. The Parish Development Model can be a key tool to address these challenges by increasing production and trade. The Parish Development Model can be effectively implemented to address these issues.
- d) We applaud Government on the Programme Based Budgeting especially the way Agriculture and Industry have been brought together. We further recommend that the Ministry
- of Agriculture and Trade work more closely, especially given that most of our trade is predominantly based on Agricultural products. Therefore, the Ministry of Trade should strengthen the Portfolio of District Commercial Officers (DCOs) and collaborate closely with District Production

⁹ <https://www.businessdailyafrica.com/markets/commodities/China-cuts-duty-on-Kenya-avocadoes-to-7-percent/3815530-5415968-j32394z/index.html>

¹⁰ <https://www.casaprogramme.com/wp-content/uploads/CASA-Uganda-SesameSector-analysis-report.pdf>

Officers and Extension Workers to promote Agro-industrialization and trade through enterprise development, create market linkages to domestic, regional and international markets, improve on standards of products, and promote consumption of locally produced goods. However, we note that in the FY 2021/22 only 120 District Commercial Officers and Local Government Officials will be monitored, supervised and supported on Sector Policies implementation¹¹.

Other related areas of concern:

e) Electronic-Commerce COVID-19 has also proved that digital trade is critical in revolutionizing trade and services in Uganda. However, the promotion of E-Commerce requires requisite digital infrastructure and conducive regulatory frameworks which are currently missing in Uganda. For example, in 2020, internet penetration in Uganda stood at 24%, with only 10.6 million internet users. Furthermore, Uganda, like majority African Countries still lags behind in the 3As of Internet i.e. Availability, Accessibility and Affordability. Uganda still ranks highest in EAC regarding the cost of internet (1GB = \$2.67 compared to \$2.41; \$2.18 and \$2.18 for Kenya, Tanzania and Rwanda respectively. Under such a reality, the digital divide still presents enormous hurdles for Uganda's full and beneficial participation in and utilization of E-Commerce.

Recommendations:

- Government should put in place an enabling environment i.e. digital infrastructure to increase Affordability, Accessibility and Availability of broadband internet and an E-Commerce Policy.

- This Policy should be reflective of national E-Commerce priorities and should be defended in the Multilateral E-Commerce negotiations.
- The 12 % excise duty on internet data will further increase the cost of internet, which will impede, rather than promote E-Commerce. This proposal should therefore be dropped.
- The MSME Directorate should undertake training of MSMEs to effectively utilize the digital platforms to trade.

f) Extractives Sector;

Uganda's extractives sector has the potential to contribute to economic growth and development. However, the sector is still under developed other than the Oil & Gas sub sector. Therefore, it is important that government addresses the challenges facing the entire extractives sector to ensure environmental protection, and the full participation and benefit of all the stakeholders especially the local Private Sector. The revenues from the Oil & Gas should also be prudently managed and reinvested in the real economy to avoid the Dutch-Disease. The Oil revenues should also not be used to mortgage the future of the country.

g) Tourism

Although Tourism has been a major contributor to Uganda's GDP and revenue, the Budget support to this sector has been very meager, with 0.4% of the National Budget earmarked for the FY2021/22. In 2019, Uganda earned USD 125bn from Tourism¹². However in 2020, Uganda's foreign exchange earnings from tourists' arrivals fell 72.7% to US\$440 million highlighting the adverse effects of coronavirus pandemic on the country's tourism sector¹³.

The Tourism sector as a whole and the operators within the sector have been hit hard by the COVID-19 pandemic and by

¹¹ https://budget.go.ug/sites/default/files/Sector%20Spending%20Agency%20Budgets%20and%20Performance/2021-2022_VoteMPS_306_UgandaExportPromotionBoard_147_30032021222649.pdf

¹² <https://statehouse.go.ug/sites/default/files/attachments/speeches/state-nation-final-converted.pdf>

¹³ <https://www.independent.co.ug/covid-19-slashes-ugandas-tourism-earnings-by-72/>



the measures to curb the spread of the pandemic. This is largely because the sector has been relying largely on foreign tourists with minimal effort to promote domestic Tourism. However, the Tourism sector has not be catered for under the various stimulus packages provided by government. There is therefore a need to provide a specific stimulus package for the sector and also for the sector to come up with a robust strategy to promote domestic tourism.

Conclusion

Uganda's economic outlook has over the years been affected by a number of systemic structural challenges that have further been exacerbated by the COVID 19 pandemic. This current situation therefore provides an opportunity to rethink the central role of the State in development and the economic policies that promotes economic, social, cultural and environmental rights for a just, fair and green transition as envisioned in Vision 2040, National Development Plan (NDP) III, Agenda 2063 and Sustainable Development Goals (SDGs).

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