Barriers to Implementation of Uganda's National Industrial Policy: a case study of the Iron and Steel Sector

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ABSTRACT

This research is a descriptive study of the state of implementing Uganda's National Industrial Policy (NIP) with emphasis on the Iron and Steel sector. The major aim was to assess the process and the associated challenges, to devise means for better NIP implementation.

The research involved interpretation of both qualitative and quantitative data collected from the policy makers, implementers, industries in the Iron and Steel sector, experts and associations.

The research found that the National Industrial Policy was well formulated and able to guide Uganda's industrialisation. Major challenges to NIP implementation included lack of a coherent implementation strategy and commitment to put in place infrastructure/structures to implement the NIP for example, a National Council to oversee implementation of the policy. This was evidenced by dissatisfaction by the key stakeholders in the iron and steel sector with way the policy was being implemented.

The study recommended that the government should put in place a Statutory Council to oversee the entire implementation of the NIP if it is to make the much needed impact not only in the iron and steel sector but the whole industrial sector. This way, the government would be fully commit to creating an environment that supports implementation of the policy especially providing resources, legal support and the other supportive policies.

Key words*: Uganda, National Industrial Policy, Implementation, Challenges, Iron and Steel*

1.0 Introduction

The importance of industrialisation as an engine of economic growth and development cannot be overstated (Wade, 2003). Industrial development is expected by African governments and policy makers to lead the transformation of low-productivity and low-growth economies into those that are dynamic and competitive.

Historical facts reveal that all developed countries of the world broke the vicious circle of underdevelopment by industrialisation and virtually all of today's industrialized nations actively supported and protected their industries through specific policies and institutions (Chang, 2002, 2005; Marti & Ssenkubuge, 2009).

Indeed, no country has made economic progress without positive stimulus from intelligent governments (Lin & Chang, 2009). Through industrialisation, developing nations aspire to achieve higher economic growth, and to eventually attain developed nation status. This explains why Industrialisation has been an integral part of African development strategies throughout the post-Independence era (Lall &Wangwe, 1998; Bolaky, 2011).

1.1 Industrial Policies

For industrialisation to be realised and its effectiveness to be felt, there is need for intervention from the state to coordinate the nation's economic activities. A policy is the tool used as guidance for decision making by the state in the industrial interventions.

As noted by Evenett (2003), the term 'industrial policy' means different things to different people. Industrial policy can mean any policy that affects a subset of industries differentially from the remaining group of industries (Hart, 2001), or mean a (large) set of innovation and education, trade, sectorial and competition polices employed by governments to induce structural change and industrialisation (Cimoli, Dosi, & Stiglitz, 2009).

In this paper, "Industrial Policy" has been defined as a set of rules, regulations, principles, policies and procedures laid down by the government for regulating, developing, and controlling industrial undertakings in the country.

1.2 Performance of Industrial Policies

There are good grounds for believing that industrial policy can play an important role in promoting development and there certainly are examples where industrial policy has played this role (like in the Asian Tigers). However, for every such example there are cases where industrial policy has been a failure and may even have impeded development like the case of Ghana in the 1960s and all over Latin America from the 1940s (Robinson, 2009). The difference between success and failure cases rests in the politics of policy for each given case.

With all the importance of industrialisation and industrial policies, it remains doubtful whether the approach of industrial policy-making in developing countries has indeed been successful in transforming their economies (Lall &Wangwe, 1998; Goh, 2005). To date several studies have been conducted to analyse the failure of Africa to industrialize and also to address the question of how policies might be reshaped to boost industrial development and accelerate structural transformation in Africa (A Jakaiye & Page, 2012).

1.3 Focus of this Paper

This paper focuses on Uganda's adopted strategies/policies for industrialisation and the degree to which their implementation has been effected citing the major challenges this process has faced.

This study was undertaken in the iron and steel sector mainly companies manufacturing construction iron and steel products mainly used for construction and the relevant government bureaucracies responsible for implementation of Uganda's National Industrial Policy. The iron and steel subsector was chosen because it is the basis for industrialization in that it provides inputs, tools and equipment for other subsectors. Therefore, developing the iron and steel subsector sets the stage for industrial take-off.

Two documents which were crucial for this study are the National Industrial Policy (NIP) of 2008 and the National Industrial Sector Strategic Plan (NISSP) of 2011. The NISSP is the guideline for implementing the NIP.

1.4 Methodology

Approach

The research was a survey type to collect information about policy making and implementation regarding the Uganda's manufacturing sector. Qualitative and descriptive data was collected and analysed.

The researchers aimed to develop a profound understanding of how policy implementation is done so as to ably formulate an explanation for the challenges impeding the NIP implementation. Contact with the respondents was based on structured interviews. In addition, literature review was carried out on recent articles and related Government policies in order to validate observations and interpretations.

Study Population

In each of the studied organizations, a department head was interviewed to get the relevant data and information. The sample and the respondents are shown in Table 1, below: There were multiple respondents from some organizations. The steel companies and some organizations did not want to be named.

Table 1: Organizations sampled and respondents

Entity	No.	No. of Respondents
Ministry of Trade, Industry and Cooperatives, Ministry of Finance, Planning and Economic Development	2	3
Government Agencies including National Planning Authority	5	10
Independent Industry-Associations (Uganda Manufacturers Association and Uganda Small Scale Industries Association)	2	2
Iron and Steel Companies	6	9
Total	**15**	**24**

2.0 Context of Uganda’s Industrial Policy

2.1 Industrial Policy Evolution

Industry has always been of great influence to Uganda’s economic growth. It was the major force behind the country’s robust economic growth in Uganda’s first decade of independence by providing up to 17% of formal sector employment and earning close to 20% of the total export earnings (ADB, 1994).

Since the 1950s with the establishment of Uganda Development Corporation (UDC), Uganda's industrialisation has been dominated by state intervention through Import Substitution Industries (ISI). Through UDC, the government set up large industrial enterprises which thrived until in the 1970s when industry together with the entire economy went into a downward spiral due to deportation of the Asians and general maladministration. By 1979 when the Amin regime was overthrown, most of the industries including those in the iron and steel sector had failed completely.

In the 1980s, the Uganda government started a series of Structural Adjustment Programs (SAPs) to revitalize the economy recovered from the aftermath of 1970s. SAPs operated within a liberalized policy framework with no specific industrial policy prescriptions and did not subscribe to strategic thinking about industrialization and in the 1990s efforts to come up with an industrial policy began (Okuku, 2008).

2.2 Current Industrial Policy

Uganda's current industrial strategy operates within a liberalized policy framework comprised in the National Industrial Policy (NIP) passed in 2008. It is a broad generic industrial policy i.e. it contains policy-actions that target the entire industrial in form of human resource development, Public-Private-Partnership enhancement, etc. though at the same time there is some degree of priority given to the knowledge, agriculture, engineering, and raw material based industries.

The NIP acknowledges a need for formulation of supporting policies if it is to be effectively implemented. These include: - industry financing, labour management, small and medium enterprises mobilisation, subsector policies and standards regulation policies among others.

The implementation of the NIP is guided by the National Industrial Sector Strategic Plan (NISSP). Ministry of Trade, Industry and Cooperatives leads the implementation in collaboration with Uganda National Bureau of Standards; Uganda Industrial Research Institute; Management Training and Advisory Centre; and The Uganda Cleaner Production Centre. The Ministry was also to regularly interact with the private sector, the academia and relevant industrial organizations, and NGOs for the policy to be well implemented.

2.3 The Iron and Steel Sector

The surveyed companies ranked; C4, C3, C5 and C2 in order of the most competitive for the companies dealing in construction iron and steel products. The companies serve the entire region of East Africa (including Uganda, Kenya, Rwanda, Burundi, Tanzania, DRC, and South Sudan). In this research, competitiveness was defined as the degree to which companies rank a given competitor as a threat to winning the new emerging market and/or winning away their already existing market share. The operational characteristics of the surveyed companies are shown in Table 2 while the SWOT analysis is given in Table 3

Table 2: Operation Characteristics of the Surveyed Companies

Plant	Raw Material Range	Production Facilities	Installed Capacity (MTpa)	Actual production (MTpa)	Product Range
C1	• Metallic scrap • Machine-shop tools • Steel sections	• Foundry • Pattern Shop • Machine Shop	1,800	1,320	• Castings • Machine parts (20tons – 0.5g) • Any fabrication
C2	• Metallic scrap	• Furnace • Rolling Mill	1,800	1,200	• Steel bars • Steel sections
C3	• Wire rods • Coils (HRC) • Billets	• Rolling Mill • Machine Shop			• Steel bars • Roofing sheets • Steel tanks • Wire products
C4	• Iron Ore • Metallic scrap • Plastic scrap and Castings	• Ore smelting plant • Rolling Mill • Foundry • Galvanizing Plant • Plastics plant	360,000	270,000	• Steel bars • Steel sections • PVC Products • Roofing sheets • Wire products
C5	• Iron ore • Metallic scrap	• Ore smelting plant • Induction Furnace • Rolling Mill	50,000	30,000	• Steel bars

Interventions by government cited by companies in relation to NIP implementation included:

(i) The ban on exportation of iron ore and/or scrap metal;
(ii) Building of Industrial Parks. This is providing more and better facilitated working space;
(iii) Sponsorship of Science Subjects. This is increasing the level of expertise required in the industry;
(iv) Stable and Secure Industrial Environment. This reduces riskiness of operating in Uganda and thereby increasing the financial credit-rating of Uganda and Foreign Direct Investment; and
(v) The efforts to increase power supply. The sector has high expectations in the Karuma and Isimba hydro-power dams whose construction is expected to be completed in 2018 and add about 850 MW to the national grid.

Some specific government involvements in the sector were regarded as negative. These included:
(i) Tax increase. Especially increasing tax on power has increased operating costs and hence affects the competitiveness of the companies.
(ii) Favouritism. Some companies insisted that the government is biased when making major decisions usually favouring the lead investors in the sector.

3.0 Findings and discussion

3.1 Policy Making

Uganda’s policy making process followed a bottom-up approach (see Figure 1) and was managed by the Office of the Prime Minister where the decision to finance and implement the policies is also made

Table 3: SWOT analysis of the Ugandan Iron and Steel sector.

Strengths: ➢ Abundant resources of iron ore which of high purity (over 68%) ➢ Modern new plants and modernized old plants well regionally dispersed. ➢ Government supportive policies like the ban on exportation of sponge iron ➢ Uganda's strategic location and access to several markets in Rwanda, DRC, Burundi, Kenya, Tanzania and the COMESA region as a whole	**Weaknesses:** ➢ High cost and inconsistency of energy/power ➢ Higher duties and taxes ➢ Dependence on imports for steel manufacturing equipment and technology ➢ Slow statutory clearances for development of mines ➢ Lack of highly skilled human resource
Opportunities: ➢ Rapid urbanization ➢ Increasing demand for consumer durables ➢ Untapped and/or increasing rural demand ➢ Production high strength and technology-intensive products ➢ Standard Gauge Railway Project	**Threats:** ➢ Slow growth in infrastructure development ➢ Cheap semi-processed steel imports ➢ Ever decreasing supply of scrap metal ➢ Limited and unfavourable financing for the industry ➢ No steel sub-sector policy

Operating in a liberal economy, the iron and steel sector in Uganda currently has no industry-specific policy. Some specific strategic moves have been made in an effort to regulate the industry like the banning of iron-ore exportation, investment incentives especially to foreign investors, provision of land for expansion through the industrial parks initiative, etc. All these interventions however, occur as separate and uncoordinated interventions in the industry no wonder the challenges faced by the industry which include: poor quality and counterfeit products, lack of technical skills, high transport costs, limited financing, etc. still persist.

3.2 Nature of the Industrialisation Strategy

Though the NIP itself intended to focus on four key priority industries where it is assumed that Uganda has competitive advantage, the NISSP objectives cut across the entire industrial sector and aim to see upgrade or transformation in the entire industry-structure. Uganda’s Industrial Policy, is therefore, a generic intervention. Though the NIP appears to be specific, deep analysis of the NIP document reveals that it does not give clear policy statements that are to achieve the policy goals/targets in these specific industries. It goes further to give generic policy actions applicable to the entire manufacturing sector (GoU: MTTI, 2008.).

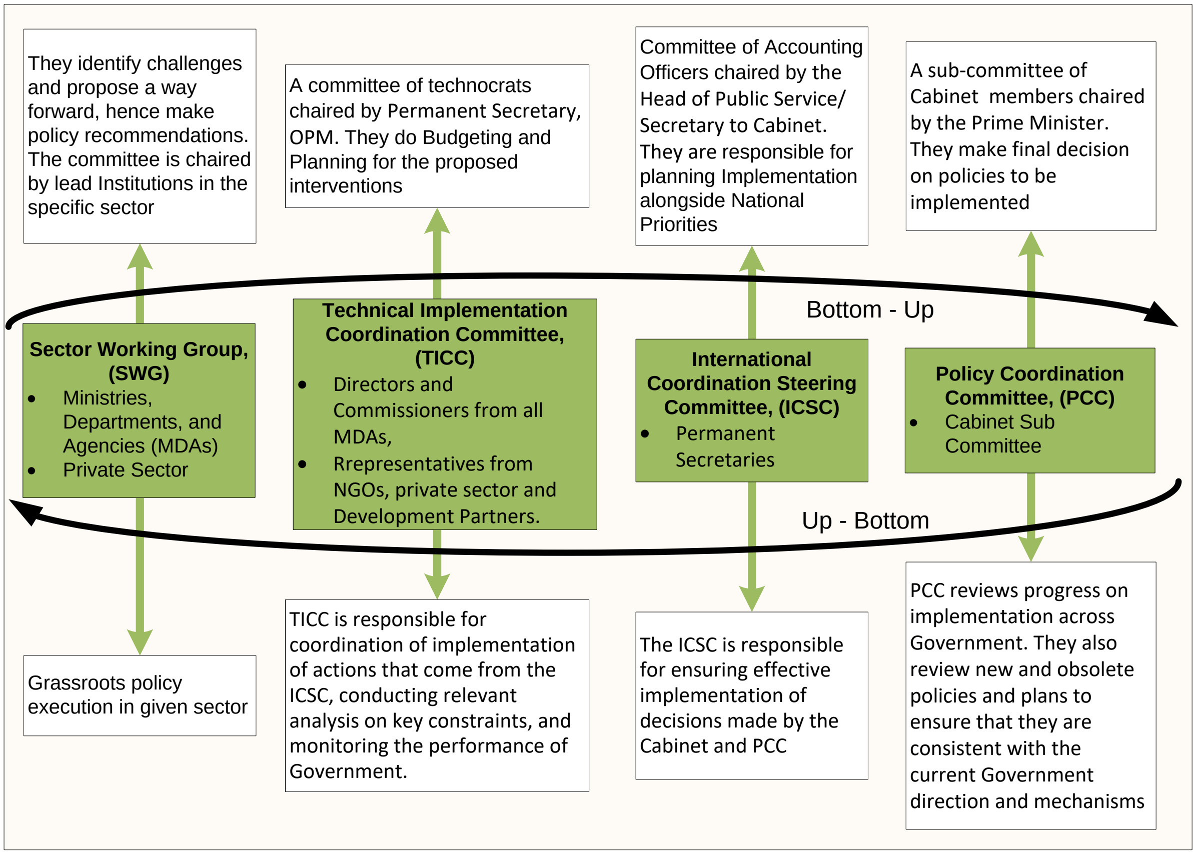

Figure 1: Interpretation of Uganda's Policy Management Framework

It can be said therefore, that, Uganda's NIP is of a functional type, a generic guide for the industry to achieve an envisioned ideal-structure after implementation. The vision of the policy is to build the industrial sector into a modern, competitive and dynamic sector fully integrated into the domestic, regional and global economies.

3.3 Implementation Progress and Impact of the NIP

Some progress has been made in implementation of the NIP but not enough to achieve the targets, which are: (Ainebyona, 2014), (World Bank, 2014).

- 25% -contribution of manufacturing to total GDP (11% in 2014)
- 30% -contribution of manufacturing to total exports (less than 10% in 2014)
- 30% -Value added in Industry (% of GDP) 922%, 2014
- 4.0 score -Competitiveness Index (3.44 in 2014)

There is, however, little progress with regard to NIP implementation for the iron and steel sector. The major problems still persist, in fact one of the surveyed companies is threatened with receivership because of consistent lack of raw materials especially coal which is imported and very expensive to buy and transport from South Africa.. Linkage to iron ore has not started.

The call for an iron and steel sector policy is a clear indication that for the NIP to impact the different industry sectors, subsector policies must be enacted and implemented.

With the current state of affairs, the NIP has had no tangible impact at least in the iron and steel sector, the case study of this research. There is also no evidence that implementing agencies are ready and equipped to kick-start the policy implementation no wonder the insignificant progress. This is further evidenced in the discovered implementation challenges which clearly indicate that the implementation of the NIP has barely commenced.

3.4 Challenges to NIP Implementation

a) Unfocussed Industrialisation Strategy

The nature of Uganda's industrialisation strategy clearly indicates that the NISSP is not tailored to realise the NIP objectives in the targeted industries of the NIP. A review of both the NIP and NISSP reveals the lack of coherency between the policy statements. Table 4 shows both the NIP and NISSP priorities.

Table 4: Comparison of the NIP and NISSP Objectives

NIP Priority Areas of Intervention	NISSP Priority Areas of Intervention
1. **Natural and domestic resource- based industries:** petroleum, cement, and fertilizer industries. (Promoting competitive industries that use local raw materials.) 2. **Agro-processing;** food processing, leather and leather products, textiles and garments, sugar, dairy products, and value addition in niche exports. 3. **Knowledge-based industries:** ICT, call centres, and pharmaceuticals that exploit knowledge in science, technology and innovation. 4. **Engineering for capital goods:** agricultural implements, construction materials, and fabrication/Jua-Kali operations.	1. Institutional Development; 2. Public-Private-Partnership Enhancement; 3. Infrastructure Development; 4. Deepening and Widening the Industrial Base and Making It Internationally Competitive, Safe and Sustainable; 5. Science, Technology and Innovation; 6. Financial Industrial Sector Transformation; and, 7. Skills and Human Resource Development.
Source: NIP, 2008	*Source: NISSP, 2010*

This is a clear indication that government's strategy/approach to industrialise Uganda may/is not well conceived by the industry. The companies cannot align their objectives to the national industrialisation strategy which is not clear and specific.
The cited challenges further indicate that the industry operates as though there is no industrial policy in place.

b) Poor NIP Implementation Infrastructures

Both the industry and the government lack the necessary capacity to adhere to the current industrialisation strategy. The companies lack the financial, technological, and human resource competence to facilitate the changes and/or upgrades recommended by the policy whereas the implementing agencies and/or government also lack capacity to perform the interventions called for in the NISSP.

The findings in line with this challenge include:

i) There is no designated body to oversee implementation of the NIP. The Industrial Council supposed to oversee implementation is not in place to fate.
ii) The limited financial empowerment and poor management of the already existing inconsistent finances by the agencies.
iii) Limited Human Resource Capability in terms of numbers and skills levels;
iv) Lack of structures for clear interaction between the industry and agencies/government to support NIP implementation. This has led to:

- Poor strategic linkages to coordinate R&D and M&E activities between agencies/government and the industry.
- Poor information flow and knowledge sharing between agencies/government and the industry.
- Coordination failures in government and her agencies whereby the NIP activities are not followed up to be financed and effected according to plan.

v) Infrastructure inadequacy in terms of transport, energy, work places, etc. to support the industrial structure being advocated for;
vi) The weak legal framework that cannot enforce the NIP. Policies and laws to support the NIP are non-existent;
vii) The poor market conditions characterising the industry discourage investment at times and have also led to rent-seeking tendencies in the industry.

c) Lack of Government Commitment to Implementing the NIP/NISSP

While Uganda lacks the structures to implement the NIP, there is no commitment by government to upgrade/improve these structures probably because of the competing national priorities with a small resource envelope.

All the challenges revealed have connection to factors only the government can solve. These include:
i) The limited and inconsistent financing to the implementing agencies;
ii) The weak legal and policy framework to support the NIP implementation process.

4.0 Conclusion and Recommendations

Uganda like most other developing countries has the NIP focussed on an ideal industrial structure associated with modernization; the structure is not only capital and skill-intensive but characteristic of a higher-income country than the country's current state. It does not take advantage of the country's competences in comparison to the global/external factors to develop dynamic industrial structures that compete well both locally and globally. This has long been found out as a challenge to developing countries' industrial policy making (Robinson, 2009; Lin & Chang 2009; Harrison & Rodriguez, 2010).

Despite the commitment to making and passing the NIP, there is little support to effect implementation yet studies show that for economic progress, positive stimulus from intelligent governments is paramount. Literature also asserts that it is the infrastructural, institutional, human resource, financial and STI capacity of a country that support the industrial transformation (Harrison & Rodriguez, 2010).
It is also known that industrial policy has been successful when those with political power who have implemented the policy have either themselves directly wished for industrialisation to succeed, or been forced to act in this way by the incentives generated by political institutions (Kosacoff& Ramos, 1999; Robinson, 2009)
The government should therefore be quick to address the policy implementation bottlenecks to avoid a collapse of the already promising industry and also guide Uganda to an industry lead economic transformation and/or development (Succar, 1987; Kosacoff & Ramos, 1999; Siggel & Ssemogerere, 2004; Lin & Chang, 2009; Harrison & Rodriguez, 2010).

The following policy interventions are recommended for implementation so as to enable the development of the iron and steel sector which will in turn spur rapid industrial transformation and economic growth:
i) Formulation and implementation of an iron and steel sector policy with an implementing agency such as a steel authority.
ii) Strengthening financial institutions such as development banks so that they can extend sufficient amounts of funding since steel projects are capital intensive.
iii) Reforming the tax regime so that steel manufacturers have advantage over importers of

finished products.

iv) Enabling investment in mining and processing of iron ore to supply inputs to existing steel plants.
v) Reviewing the energy policy and tariffs for steel projects which are large energy consumers.
vi) Supporting higher education institutions to run programs in metallurgy and metal working to supply highly skilled human resources for the steel sub sector.

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