# Uganda's Industrialization sub-sector during COVID-19: What should be done?

## Overview

The 2019 Coronavirus Disease (COVID-19) pandemic has affected many countries forcing emergency shutdown of economies to control the spread of the virus. According to the Africa Centres for Disease Control and Prevention (Africa CDC), 43 of the 54 African states had closed their borders by mid-April 2020. Other measures to promote public health include: restriction of public movement, closure of schools, prayer places, markets, and entertainment places among others.

The lockdown put people into panic purchases for the most essential life items. This left a strain on the economy as manufacturing and importation slowed down. As COVID-19 moves from a health to an economic crisis, measures have to be taken to ensure an active industrialisation sub-sector and post-pandemic economic recovery.

Although it is still too early to estimate the full extent of the pandemic and its impact on the sub-sector, this brief discusses the emerging impact of COVID-19 on the industrialization sub-sector, and where government needs to prioritise her efforts.

## Key Issues

- Cargo movement at border points is delayed due to the new guidelines aimed at reducing the spread of COVID-19. Since many industries import raw materials, this is affecting production.
- Restrictions on movement of persons have led to temporary or partial closure of factories.
- Lockdown has reduced demand for some goods locally, yet exporting is not an option.

## Introduction

Uganda's manufacturing sub-sector has grown in the last decade, employing 7% of the labour force and contributing 21% of the Gross Domestic Product (GDP)[1]. The sub-sector is majorly dominated with food processing and drinks at 40% and 20.1% respectively[2].Other contributors include: chemical, paint, soap and foam products; metal products; bricks and cement; as well as textiles, clothing and footwear.

The manufacturing sub-sector largely relies on imports namely: petroleum products (refined fuels and other by-products), iron and steel, medical and pharmaceuticals, plastics, heavy machinery and cereals. Uganda is one of the 16 landlocked countries in Africa and largely uses road transport for the incoming and outgoing export cargo. Therefore any measures by the coastal countries highly impact the manufacturing sub-sector in Uganda.

The world was recently hit by the deadly COVID-19 and in order to prevent spread of the virus, many countries came up with preventative measures including closure of borders and lockdown of non-essential services among others. The small but expanding manufacturing sub-sector has been instrumental in boosting employment and poverty reduction prior to the outbreak of the COVID-19 pandemic. The

[1] Budget Framework Paper FY2019/20
[2] Uganda National Bureau of Statistics

manufacturing sub-sector has an indirect impact through backward and forward linkages, bringing together small-scale business operators and rural farmers with large businesses within supply and value addition chains.

The impact of COVID-19 on the manufacturing sub-sector is still largely un-quantified and yet to be fully felt. Formal assessments have not yet been possible, but current observations and online surveys reveal disruptions to operations of the sub-sector.

## Effects of COVID-19

**Disruption of the supply chain:** Uganda closed her borders due to COVID-19, only allowing movement of goods but at a slow pace. This is attributed to strict measures including mandatory screening, testing and quarantining.[3] This negatively impacts on timeliness and volumes produced as some of these imports are raw materials for the different industries.

Border agencies face the challenge of expediting imports and exports, while ensuring epidemic prevention and providing adequate customs clearance and compliance controls of goods and transport personnel. According to a report by the Economic Policy and Research Centre (2020) 75% of manufacturing firms in Uganda have experienced disruptions in supply of raw materials. Recent experiences show that transit is indeed impeded especially at the border entry points of Malaba, Busia, Elegu and Mutukula. By increasing health controls, the flow of goods to and from the country has slowed down.

**Trucks lined up at Malaba Uganda-Kenya border awaiting screening and testing of the drivers. (*Photo credit: Citizen TV*)**

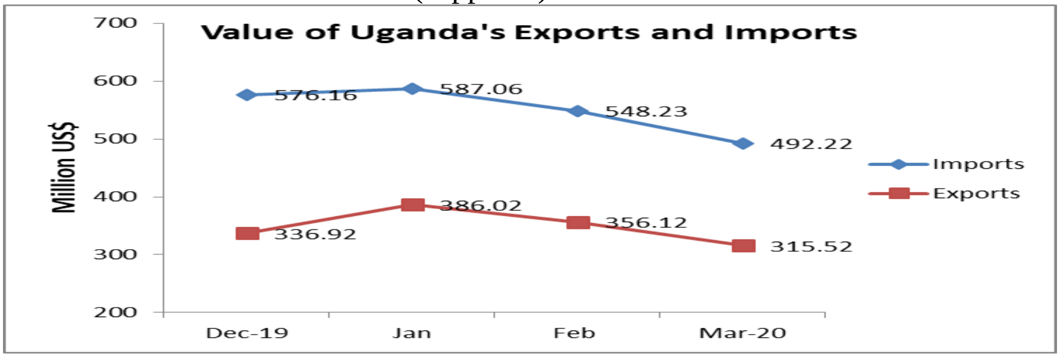
**Decrease in sales:** Disruption of the logistical channel and drop in demand has reduced sales especially of non-essential items. The drop in demand is attributed to the lockdown situation due to loss of income opportunities for most people in the informal sector. Movement restrictions are also interrupting the role of intermediaries, who collect various goods or products from different manufacturers for resale to retailers and through informal cross border trade. This has an impact on the volume of goods produced by big manufacturers if the off-takers are not operational.

According to a 2020 report by the United Nations Capital Development Fund (UNCDF) 80% of companies in Uganda anticipate a 10% drop in revenue for the year 2020 due to the COVID-19 outbreak[4]. The drop in revenues has been reflected as shortfall in the tax revenue collections for the month of April 2020 at Ug shs 547.12 billion against a target of Ug shs 1,478.54 billion (MFPED, 2020). Taxes on international trade transactions performed at only 49.4% and thus registered the biggest shortfall of Ug shs 313.92 billion, due to a reduction in dutiable imports during the month arising from the effects of COVID-19 on trade.

[3] By 17th May, 2020 over 120 cross border truck drivers had tested positive for COVID-19.

[4] UNCDF, 2020

Closure of bars and other entertainment places has affected the volume of alcoholic and non-alcoholic drinks produced. Closure of educational institutions caused loss of market for food and stationery manufacturers (suppliers).




*Source: Bank of Uganda*

The loss of market for agro-industry products will significantly impact the agricultural sector since they depended on these firms to purchase the raw materials they produce.

**Less working capital especially for manufacturing small and medium enterprises (SMEs)**: Since SMEs have limited cash reserves, they majorly operate on liquidity from sales as capital. Due to restrictions on peoples' movement and access to markets, SMEs are hit by a liquidity shock. Due to fear of the virus wave, consumer priorities changed to most essential life expenditure items. This situation makes SMEs more vulnerable to bankruptcy. In these hard times, large companies may be priority for financial institutions, leaving SMEs with no platform.

**Limited access to essential service providers:** Most SMEs in manufacturing do not employ fulltime maintenance engineers so they rely on service providers in case of emergencies. Hence, working during the lockdown is not only challenging, but costly leading to temporary closures.

**Managing the work environment amidst COVID-19:** Large manufacturing industries always employ a big number of personnel. Therefore camping workers nearby or within factory premises as guided by His Excellency the President of the Republic of Uganda was difficult for some to comply with due to the costs involved. Most industries employ more than 200 people in production who work in two or three shifts. Majority of these in sorting and packaging lines especially in the agro-processing industries do not comply with social distancing requirements[5]. This forced most factories to temporarily lay off some workers, while others temporarily stopped production operations. This has reduced the volume of goods produced.

**Loss of employment:** According to the 2020 UNCDF Survey, an estimated 100,000 people were expected to be laid off due to reduced production and drop in domestic demand of goods arising from the COVID-19 control measures in April and May 2020.

## Positive impact

**Local capacity boosted:** The outbreak of COVID-19 has enabled countries that largely rely on imports to boost their

[5] BMAU Gender and Equity Performance Report FY2018/19

internal manufacturing capacity for some items. In Uganda, the textile industries have boosted their capacity to produce facemasks, while one company has changed its manufacturing profile to produce transparent face shields for medical personnel.

Forty-five companies have been certified by the Uganda National Bureau of Standards to produce hand sanitizers. Before the onset of COVID-19, there were only two certified companies producing hand sanitizers[6].

## Conclusion

The manufacturing sub-sector is key in the development of Uganda to middle income status as envisaged in the third National Development Plan, however the COVID-19 outbreak has negatively impacted the sector growth. Restricting movement of people and loss of business to the informal traders who constitute over 50% of the offtakers of the manufactured goods has hampered the industrialisation sub-sector. Recovery of the manufacturing sub-sector will be dependent on maintaining an active supply chain and the impact of the proposed relief/stimulus packages.

Ensuring that manufacturing continues and is enhanced amidst the global challenge of COVID-19 will preserve the many jobs in the industry as well as those who indirectly depend on the sector.

## Recommendations

The following recommendations are necessary to ensure continuous production and distribution of goods.

i. Government through the Ministry of Works and Transport should urgently revive the existing railway lines and ferries, and fasttrack the standard gauge railway for efficient movement of cargo in the medium term. This will reduce the number of people and costs involved in freight transportation.

ii. Government through the Ministry of Trade, Industry and Cooperatives (MoTIC), with support from the National Information Technology Authority of Uganda (NITA-U) should invest more in e-Government services in the trade and industry sector. Online transactions will limit physical contact of people to contain the spread of the virus.

iii. The MoTIC should support the Uganda Manufacturers Association to create an information system to track stock and prices of key commodities to avoid times of scarcity.

iv. Government should plan and execute an economic stimulus/relief for businesses at the verge of collapsing due to COVID-19.

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[6] Uganda National Bureau of Standards