



# BMAU Briefing Paper (1/12)

## Value Addition industries in Uganda: Will government investments deliver?

### Overview

Government of Uganda proposed a number of value addition projects to promote industrial growth, income diversification and increased household incomes.

Value addition projects under review include; Soroti Fruit Factory; Luweero Fruit Drying Factory; the Presidential Initiative on Banana Industrial Development (PIBID) and Buhweju Tea Factory all under the Ministry of Finance, Planning and Economic Development (MFPED).

All the above projects have been monitored since FY 2009/10. All projects monitored have physically underperformed except for Buhweju Tea Factory which has registered some achievements. This briefing paper reviews performance of the aforesaid projects highlighting key challenges and strategic recommendations.

### Background:

Government of Uganda premised the theory of science-led-processing and value addition enterprises to rapidly improve market chains that supply local, regional and international markets. This will not only improve household incomes but will also facilitate both industrial and economic development<sup>1</sup>. These benefits will primarily result from:

- (i) Improved access to goods, services, markets and information;
- (ii) Reduced post-harvest losses;
- (iii) Increased output and productivity;
- (iv) Enhanced food security;
- (v) Improved product quality and increased producer prices;
- (vi) Improved economies of scale;
- (vii) Increased exports and/or reduced imports will result in foreign exchange earnings/savings;
- (viii) Effective functioning of farmer and marketing groups.

### KEY ISSUES

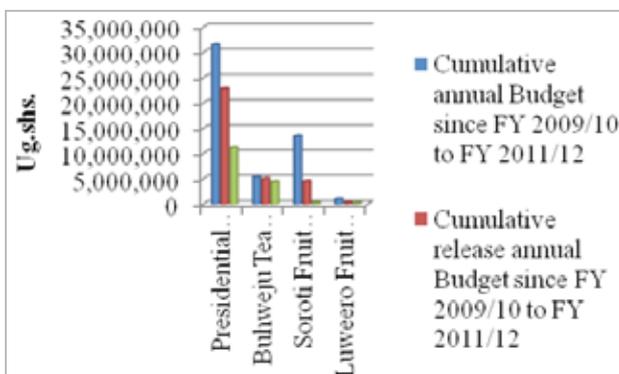
- a. Poor physical performance of all value addition projects under review.
- b. Inadequate and late releases to value addition projects.
- c. Lack of a legal framework to implement and guide management of Public Private Partnership for value addition projects in the country.
- d. Inadequate planning for value addition projects leading to serious sustainability concerns.
- e. Lack of warehouse receipting system and refurbished silos across the country.

<sup>1</sup>Budget Monitoring Report October-December 2010

## Financial Performance

The annual budget allocations to value addition projects have steadily been improving. However the releases have not translated into timely planned outputs. Most of the value addition projects under review were behind schedule due to a number of challenges (highlighted on page 3 of this brief), most significant being poor planning and lack of coordination.

**Figure 1: Financial performance of value addition projects under review**



*Source: BMAU progress reports 2009-2012*

Figure 1 shows that albeit increased allocations and releases, financial performance is still poor for most of the projects under review, with the exception of Buhweju Tea Factory that absorbed over 90% of funds released.

## Physical Performance of the value addition projects.

By November 2011, PIBD was 60% complete while Soroti and Luweero fruit drying factories, were at 0%. Implementers attributed delays to lengthy procurement processes to facilitate timely commencement of feasibility studies on both factories (the process took more than 9 months).

In general, value addition projects lack clear plans, which in effect have hampered timely implementation. However, it is worth noting that in Buhweju where some progress has been made, benefits were visible.

### Registered Benefits of Buhweju Value addition Tea Factory

Buhweju Tea Factory began its operations in November 2011 when installation of the first processing line was partially completed and operationalised. A total of 91,000kg of green leaf has been handled since operationalisation. Daily production capacity is expected to rise to 70,000 kg of green leaf once all machinery is installed.

A total of 3,392 farmers supply green leaf daily and are paid on a monthly basis. Prices are based on going market rates and farmers are entitled to advance payment.

The factory directly employs a total of 83 workers, of which 58 are male and 25 females. Nine transporters signed contracts to collect and transport green leaf from farmer sheds to the factory for processing. Overall, small holder farmers are happy with this development.

## Challenges

**Poor strategic planning;** PIBID undertook infrastructural development of all projects, well aware of her Medium Term Expenditure Framework (MTEF) ceiling and projections which were below the approved contract sum. During implementation, payments for

certified works could not be realised due to budget shortfall leading to stalling of works as contractors suspended operations and sued government for losses incurred.

Poor planning has led to frustration and demoralisation of project beneficiaries (farmers) who were urged to increase production way ahead of industrial take off. Matters are made worse by increased production not being guided by feasibility studies (Soroti). Intended beneficiaries are currently struggling with lack of markets.

Luweero fruit project land procurement and transfer of title into names of an NGO is a classical example of unguided decision making.

**Lack of legal framework for Public Private Partnerships (PPPs);** there is no legal framework to guide management of value addition ventures in a public private partnership arrangement. The legislation would provide a platform for investment ventures to run as profit making businesses with better sustainability plans.

**Poor physical progress;** all projects under review are behind schedule; notably, Soroti and Luweero fruit drying factory with physical progress at 0% against 70% and 50% respectively estimated time progress. PIBD- 60% against 95% time progress and Buhweju Tea Factory at 87% against 97% time progress.

**Inadequate funding;** leading to suspension of works by contractors on both PIBD and Buhweju Tea Factory. This in turn led to cost and time overruns accruing from accumulated interest.

**Poor designs;** By November 2011, final drawings (revised) for Buhweju Tea Factory had not been presented to the contractor three years since project implementation started. This scenario is common across the construction industry.

Architectural designs keep changing significantly and this affects implementation and completion of projects. This situation is generally explained by collusion and the lack of professionalism on the side of technical officials and experts.

**Low absorption capacity:** Luweero and Soroti fruit factories have recorded extremely low absorption capacity over the years. Unfortunately, funds are tied to these projects and continuously returned to consolidated fund every end of financial year thus depriving other sectors of the much needed resources.

**Inadequate infrastructure:** Poor state of rural roads has partly delayed progress of works on many value addition projects in Uganda. For example Bushenyi to Burere-Buhweju (40kms) road has been the major obstacle to smooth transportation of materials and equipment to Buhweju Tea Factory. This situation has often been made worse by the rains making transportation of materials to the site more expensive and almost impossible in some cases. Kickoff of Soroti factory has partly been delayed due to lack of key infrastructure such as electricity, water and roads

**Poor Coordination;** there is general lack of coordination among stakeholders on implementation of government programs. For example Soroti Fruit Factory plot located in UIA's Soroti industrial park is not yet serviced with water and electricity. In addition, poor state of roads to industrial ventures resulting from limited involvement of Ministry of Works/ Uganda National Roads' Authority to prioritize them; and duplication of effort by different agencies.

## Policy Actions

- MFPED should prioritize value addition projects through provision of timely and adequate development releases to ensure that cleared certificates are paid on time to avoid accumulation of interest charges.
- Proper planning should include post harvest measures to curb price volatility during peak seasons as well steady supply during off season. Government should implement a warehouse receipting system and revitalise and refurbish silos across the country.
- Implementation of industrial flagship projects is being reverted to Uganda Development Corporation (UDC); however, the agency is not funded to undertake that mandate. Government should capitalise UDC for early takeoff.
- Assessment of supervising consultants should include timely provision of relevant designs, drawings and timely completion of past projects.
- A Legal framework to implement and guide Public Private Partnership management of value addition projects in Uganda should be put in place. This will have a positive impact on sustainability of projects where government has injected public funds.
- Ensure effective strategic planning for value addition projects for timely and efficient service delivery. In future, clearly drawn plans should form the basis for funding. More attention should be paid on sustainability plans to avoid “white elephants”.
- Promote coordination within government programs. For example, value addition promoters should liaise with Uganda National Roads Authority to upgrade the roads to industrial bitumen standards. This will ease timely transportation of raw materials and finished products to and from value addition industries.

## References

1. MFPED, 2009. Budget Monitoring Reports 2009/10, 2010/11.
2. MFPED, Public Investment Plan FY 2010/11-2013/14
3. MFPED, Ministerial Policy Statement
4. MTTI: National Industrial Policy 2008

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