

AN OVERVIEW OF MANUFACTURING INDUSTRIES

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Introduction

This paper contains a brief review of the manufacturing sector, problems for immediate attention, long term policy issues and the scope for international assistance. It is followed by papers on parastatal bodies and public companies, cottage and small scale industries, and, an assessment of the financial and technical requirements during the next two years for the rehabilitation of selected industries such as consumer goods and engineering industries.

2. The assessment and suggestions made in this and the following papers are based largely on study visits to more than two dozen establishments in different parts of the country, and the data and information supplied to us in Uganda. Discussions were also held with senior officers in the relevant ministries, parastatal bodies, and financial institutions. Over two thirds of the manufacturing sector has been covered in this report.

3. We are convinced that if the constraints under which manufacturing industries worked over the last six to eight years had continued for much longer, most of them would have come to a grinding halt. Indeed a few had already closed. A number would have reached a stage of complete financial bankruptcy. Even after the constraints are removed, there are some parastatals and subsidiaries whose viability will be doubtful.

4. The principal factors which led to this state of affairs were (a) the continuous shortage of foreign exchange for importing essential inputs - raw materials, machinery and spare parts; (b) lack of trained manpower; and (c) managerial and financial bunglings by those appointed to senior positions who were neither technically qualified, nor had any previous experience of running industrial or commercial concerns.

5. Many industrial units have suffered heavy damage during the recent war. Stocks of finished products, raw materials, spare parts, vehicles and office furniture, equipment and records have been looted or damaged. In some cases, safes have been smashed and cash looted. In a few factories, machinery and equipment have also been damaged. The looting aggravated the problems of these companies.

Background

6. It may come as a surprise to those not in touch with the recent history of land-locked Uganda that, only a decade ago, the country's industrial sector though somewhat limited - was not only able to produce enough to meet a large part of domestic requirements, but also to export an appreciable part of the total output. Moreover, it was growing rapidly. Some idea of its scale and the pace of expansion can be gathered from the figures for 1966 and 1970 in Table 8.1. Comparing 1978 with 1970 the downturn becomes clear.

7. Developments since 1970 had been affected by a series of far-reaching changes in basic industrial policy. First came the measures announced on May Day, 1970, commonly known as the Nakivubo Pronouncements. The Government decided to acquire a controlling interest in a number of private companies and manufacturing establishments, and also to exclude private enterprise from external trade.

8. This policy had only been partially put into effect when the military took power early in 1971. The new regime decided to reverse this strategy. It reduced state participation from 60 to 49% in 11 companies (including three in manufacturing), though 60% participation continued in seven other companies covered by the Pronouncements.

Table 8.1
Production of Manufactured Goods

	Unit	1966	1970	1978
Cotton and Rayon fabrics	(m.sq.mts)	37	50	28
Blankets	('000 pieces)	641	1,164	165
Matches	('000 cartons)	38	49	8
Super-phosphates	('000 tonnes)	25	25	0
Plywood	(m.sq.ft.)	7	12	2
Cement	('000 tonnes)	122	191	73
Paints	('000 litres)	-	1,660	586*
Cigarettes	(millions)	1,343	1,536	1,867*
Beer	(m.litres)	20	28	22*
Waragei	('000 litres)	238	563	420

*Figures for 1977; all others for 1978

Source: Uganda's Third Plan, 1971/72 - 1975/76
and official estimates.

9. Policy was once again reversed when the economic war was launched in August 1972. This led to the deportation of Asians and non-nationals. It was followed by the allotment of their businesses and industrial units to parastatal corporations - some newly constituted - and also to a number of individuals.

10. The non-nationals who had to leave constituted almost the only experienced technical and managerial cadres in the country. Subsequently, even some of the nationals who took their place and who had some middle-level experience were replaced. Many of the new-comers (who were close to the former ministers or the head of the regime) had practically no previous association with any business or industry. A great deal of political interference in administrative and financial matters resulted in inefficiency and general demoralisation.

11. The principal objective of the Action Programme 1977/78 - 1979/80 was to regain the output levels of 1972. But no serious attempt was made to achieve the targets set. A few new projects were started only to be frustrated by the difficulties that faced industries generally. Little was done to replace obsolete equipment, and spare parts became even more scarce. This, combined with the growing shortage of experienced technical personnel, led to the deterioration of plant and machinery at an alarming rate. In Uganda practically all industries depend on imports, in 1975 these accounted for 57% of industrial inputs. But this sector was starved of foreign exchange. As a result most industries could not get adequate supplies of essential imported inputs. In 1978 the Tororo Steel Works shut down, for lack of materials such as zinc. This deprived the country of an important building material - corrugated iron sheets.

12. The main impact of these events and developments on the industrial sector, has been, briefly, as follows:-

- Except for cigarettes, the level of production of all industrial commodities in 1978 was much lower than that in 1978 (see Table 8.1)
- In both the private and public sectors, a number of factories closed down.
- Due to lack of proper maintenance, the state of plant and equipment - some already second-hand when it was installed - deteriorated further, and the effective capacity available is much less than that originally installed.
- Shortages of consumer, basic and other manufactured goods continued to grow, and this encouraged black marketing and fanned inflation.

- The financial position of parastatal corporations worsened and their request for subsidies increased.

Immediate Problems and Issues.

13. The following difficulties were typical of the situation in 1978 and they were found in most of the establishments visited:-

- Unavailability of foreign exchange, leading to inability to obtain inputs and spare parts.
- Old and obsolete machinery requiring frequent maintenance and spare parts, in a country where there are few experienced technicians.
- Inadequate provision of and/or erosion of working capital, leading to difficulties in meeting obligations including wages.
- Transportation problems including delays, high freight charges and demands for prepayments in foreign exchange by Kenya Railways.
- Unrealistic pricing policy.

14. The revival of many companies depends to a large extent on the availability of foreign exchange. Assuming a phased return to the 1970/71 production levels by the early 1980s, estimates of the local foreign exchange requirements in 1979/80 are Shs. 993 m. This includes 40% for plants not visited by the team. Shs. 518m. is tentatively provided for 1980/81. Some companies did not have clear figures of requirements for 1980/81, and the estimates for that year will need adjustment.

15. Inadequacies in managerial and technical expertise are glaring in some units. Many managers and senior personnel appear to have neither the training nor the experience required for the positions occupied. Many Corporations do not have boards of management (to whom chief executives could report); so there is nobody with the mandate to run the companies on a business-like basis. In some cases, technical problems can hardly be cured without resort to technical assistance - e.g. The National Textile Board, The Matches Company and the lamps factory identified this need. In addition, training for Ugandans in management and technical skills is needed on a considerable scale.

16. Some companies reported that controlled prices were unrealistic as they did not take into account the full production costs of industries. Companies requiring large amounts of imported inputs were hard hit. This problem is addressed in greater depth in the paper on issues.

17. It is fair to conclude that a combination of local capital, foreign exchange and good management should revive production in the industrial sector of Uganda - provided transportation difficulties between the country and Mombasa and also within Uganda itself are eased.

International Assistance

18. In view of the difficulties facing Uganda, it would appear that the bulk of the finance needed for industries will have to come from outside. It is proposed that grants and long-term loans at no worse than IDA (World Bank) terms be sought to finance these requirements (see Table 8.2)

19. The observed weaknesses in management in some companies suggest that provision of funds should be conditional upon plans being submitted for improvement. One alternative is that all funds to this sector be channelled through a local institution with managerial and technical capacity to evaluate management, financial and technical plans, as well as operations of the companies.

Table 8.2
Financial Needs of the Industrial Sector (Shs. m.)¹

	1979/80		1980/81	
	Total	Foreign Exchange	Total	Foreign Exchange
1. Spinning and weaving mills	67	43	125	120
2. Garments, woollen blankets and hessian bags	80	80	100	100
3. Matches	2	1	1	1
4. Paper	10	9	18	18
5. Distellary	9	9	40	40
6. Oil and Soap	45	45	15	15
7. Tobacco Corporation	28	28	25	24
8. Wood Industries	105	29	8	2
9. Engineering Industries	122	122	82	82
10. Chemical Sector	11	11	n.a.	n.a.
11. Minerals and Mining	184	150	143	115
12. U.D.C.	274	30	n.a.	n.a.
13. Other Building Materials	146	128	n.a.	n.a.
14. Others	478	308	n.a.	n.a.
Totals	1561	993	(557) ²	(518) ²

¹ Based on incomplete coverage and in some cases unevaluated statements by Managers - see text.

² Total for industries listed.

20. It was not possible to identify and agree on technical assistance and training needs in many companies. However, a mini-survey by the manpower expert with the Team revealed the following facts and figures:

In 43 companies and bodies in the industrial sector that responded, 91 managerial positions out of 772 were vacant and 21 were occupied by non-Ugandans; 160 out of 502 professional positions were vacant and 19 were occupied by non-Ugandans; 237 out of 1830 semi-professional and technical positions were vacant and 33 were occupied by non-Ugandans. Training needs identified were 340 in the managerial/administrative field, 206 in professional fields and 726 in semi-professional and technical fields. These needs covered both on the job and off the job training.

21. Over-staffing was also reported. These findings confirmed some of the observations of industrial sector members of the team regarding vacancies and need for training. The figures, however, do not tell us much about the experience and calibre of management in the companies and public bodies. Members of the team observed management weaknesses in a number of companies.

22. The following are areas where needs were tentatively identified:

Spinning and Weaving Mills

- Metallurgist to advise on the metals to be used for fabrication of parts and components of textile machinery (period: 1 month).
- A team of 3-4 textile production/financial/engineering experts to review the physical and financial requirements for rehabilitation already assessed by the mills and to advise on fuller utilisation of their capacity and production of finer fabrics (period: 4-6 months).

Matches

- Mechanical engineer to advise on production operations, particularly for reducing the waste of veneers and splints (period: 1 month).

Cottage and Small-scale Industries

- An adviser (economist) to assist the Government in formulation of a detailed programme for the development of cottage and small-scale industries including handicrafts (period: 18-24 months).

U D C

- Two senior experts - one on investment promotion and the second on projects (48-man months).
- One on portfolio management and finance (24-man months).

Lamp Factory

- Lamp technologist (regular basis)

Cement factories Hima and Tororo

- Chief engineer (on regular basis)
- Mechanical engineer
- Chemical engineer
- Mining engineer
- Technical Assistance for Commissioning Phase II at Hima Works (2 men for 3 months).

23. It is also vital, to look at plant - level needs if crisis are to be averted.

24. Figures for individual units on which the estimates are based could not be critically evaluated in every case. However, the situation in the following companies was found to be so critical that the team believed they merit emergency assistance. Unless immediate relief - mostly supplies of raw materials - is forthcoming they will have to close, and it will take greater effort and finance to revive them.

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|---|------------|
| 1. Uganda Bags and Hessian Mills | Shs. 8m. |
| The company produces mainly jute bags. The available stock of jute is very limited and the factory faces closure unless supplies are rushed. | |
| 2. Uganda Hoes Limited | Shs. 505m. |
| Hoes are critical to the agriculture-based economy of Uganda. The company lacks steel. | |
| 3. Cement Works at Tororo and Hima | Shs. 25m. |
| Main constraint is gypsum. Marginal imports of this item will push up the production of cement greatly. | |
| 4. Dunlop (E.A.) Ltd. | Shs. 2m. |
| Again, the critical area is inadequate stock of rubber which may last for only a few weeks. | |
| 5. Steel Manufacturers of East Africa Ltd. | Shs. 15m. |
| This company, making steel - a vital input to other engineering industries - is facing closure, because of shortage of feed material like scrap, among other reasons. | |
| 6. Kilembe mine | Shs. 126m. |
| While the amount needed by this company appears high, the expected foreign exchange earnings from cobalt exports should outweigh it. | |
| | Shs. 181m. |

25. Difficulties arising from old and obsolete plants cannot be fully resolved in the rehabilitation period. They need in-depth study by people with the requisite technical know-how. To arrest the problem temporarily and to enable plants to at least start producing, parts and limited replacements are needed: they are allowed for in the above provision for foreign exchange.

26. Some will also need local currency for working capital and local inputs - perhaps another Shs. 400m. for the same group of companies in 1979/80. This excludes companies which have sufficient internally-generated funds or can borrow from local financial institutions. This is certainly the case with the Tobacco Corporation, the Distillery and some textile units. The provision of the sums indicated would go a long way towards solving many working capital and cash-flow difficulties and permit the resumption of production. If units are managed efficiently, they should soon begin to build up some working capital from their proceeds.

27. The movement of inputs to industries, and output to the markets was impaired by transportation problems. While the former problem was serious in all industries, the latter was acute in industries producing bulky products. Difficulties experienced in moving imports and exports meant that a lot of capital was tied up in stocks for abnormally long periods. Moreover, cash flow problems have been aggravated by Kenya Railways demanding advance payments, a reaction to the bad credit record of many Ugandan Corporations. These difficulties, which were particularly serious for exporting Corporation, e.g. the fertiliser companies, are dealt with and solutions proposed in the papers on transportation.

Long Term Policy Issues

28. There are certain issues which, though long-term in nature, have to be considered during the period of rehabilitation as the very rehabilitation itself will affect the industrial structure. For example, sometimes questions arise over whether an existing company should be enabled to survive. There is a need for an in-depth study of the industrial strategy in Uganda. Some issues to be taken into account are outlined in the following paragraphs.

i) Choice of Industries

29. The first principle is to give priority to industries that utilise Uganda's many natural advantages, especially in view of the foreign exchange shortage. Agricultural commodities such as coffee, tea and cotton constitute a resource base for the development of agro-industries - coffee and tea processing, textiles and garment making for example. Abundant cheap hydro-electric power is fundamental for the power-intensive industries such as processing of the numerous minerals - copper, iron ore, limestone, etc., which in turn give a fillip to other industries. Cement industries can stimulate development of the construction sector. The basic chemicals from the Lake Katwe Salt Project can catalyse the development of the chemical, paper and textile industries. Processing of sulphuric acid from sulphur and of caustic soda and soda ash come immediately to the mind. Forest resources are at the base of industries producing paper, match, timber, furniture, plywood etc.

30. The paucity of foreign exchange suggests priority also for import-substituting industries in the first instance. If the bulk of the inputs required are available locally, it is naturally better to import the balance of inputs for indigenous production rather than importing the finished products. The cement industry is a case in point. Uganda has the main feed material, namely limestone, but lacks gypsum, fluorspar and explosives, etc. which account for only a minor component of total cost. Instead of importing cement at a high cost, it is patently preferable to effect marginal imports of supplementary inputs and produce cement indigenously.

31. On the other hand, the size of the market may be such as not to warrant indigenous production just for the sake of import substitution. In a fertile country like Uganda there has not been a very high demand for fertilisers. Should the small market volume be satisfied through imports or should the foreign exchange involved in imports be saved through resort to indigenous production? The latter alternative was adopted in this case, and almost three-quarters of the production has necessarily to be exported. The project may be justifiable on the grounds of net foreign exchange inflow, but the cost of earning that foreign exchange has to be taken into account, including the opportunity cost of funds in a capital-scarce economy like Uganda.

32. Such financial criteria provide one set of guidelines. But there are also social and political considerations. Reducing regional disparities, for example, may outweigh other factors. So may increased economic independence.

ii) Technology

33. Even though during the immediate period of rehabilitation this aspect is not very relevant, as the existing productive apparatus cannot be changed, it will assume importance as rehabilitation gives way to development. The technology employed in most of the industries is out-dated, one result being that spare parts for the installed machinery are not easily available in the international market which in turn means that regular maintenance and much better spare parts management than hitherto are important.

34. The present technical skills of Ugandan personnel probably rule out the widespread application of sophisticated technology. It follows that the skills required need to be acquired through education and training. The industrial policy of most countries specifies a role for international business corporations in high technology areas, with the emphasis on transferring technology so that local personnel are increasingly able to operate the plants themselves.

35. There are certain industries which by their nature raise the threshold of general technical skills. The engineering industry can act as a good carrier of technology because of its multiplier effect. Setting up a chain of fabrication and maintenance workshops in the automotive sector for example, can be profitable. On the other hand, consumer goods, the mass-scale manufacture of which does not create a technology-spread effect, may be better imported; this may also be warranted by considerations of market size and production run.

36. In the process of acquiring technology through foreign investments or licensing agreements, it will be necessary for the Government of Uganda to ensure that only the necessary technology be imported and at a reasonable cost. The scarcity of foreign exchange means there must be no frittering of resources in importing expertise of doubtful validity in the long run. A suggested institutional forum in Government for ensuring this would be a Foreign Investment Board charged with the responsibility of examining and approving (or disapproving) each proposal for foreign investment or collaboration agreements. This Board could work closely with such organisations as UDC in investment promotion.

iii) Ownership

37. This raises the question of ownership and investment. The Ugandan Government has expressed its commitment to a mixed economy policy in which both the private and public sectors have a role to play. The accelerated Ugandanisation of industry through Government ownership has not resulted in the expected benefits, but in fact, as we have seen, has eroded industrial operations. Partly this has been due to the fragmentation of the very limited technical and managerial expertise at the Government's disposal.

38. This suggests the need to delineate the roles of various sectors. Some suggestions in this regard are as follows:

- (i) Relatively high technology areas for which indigenous capabilities are not available and which are important for industrial development - such as mineral-processing, basic materials, etc., can be open to participation by foreign entrepreneurs, as can import-substitution projects and industries involving large amounts of foreign exchange in project costs.
- (ii) Projects involving considerable resources which only the State can marshal, those of basic and strategic importance, infrastructural and public facilities are indicated as falling within the public sector's domain.
- (iii) Most of the other areas can be left free for Ugandan private initiative (eg. Industries producing consumer goods, those of relatively small size, with a limited capital base and employing low technology).

39. The above point to the need to examine critically the various existing parastatals to see if changes in ownership could improve their operational viability or long term development. (See the paper on parastatals). Once an industrial enterprise is established it must be distinctly understood that, whether in the private or public sector, it must run on sound management and business practices.