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The experience of Uganda in fostering domestic value addition in the cotton value chain

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.



THE EXPERIENCE OF UGANDA IN FOSTERING DOMESTIC VALUE ADDITION IN THE COTTON VALUE CHAIN

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Presentation outline

- Introduction
- Uganda's approach to fostering domestic value addition to cotton
- Status of value addition to cotton in Uganda
- The Cotton Value Chain in Uganda
- Legal/policy frameworks supporting domestic value addition to cotton
- On-going initiatives
- Conclusion

1. Introduction:

- Cotton Sub-sector was liberalised in 1994.
- Consequently, marketing and processing were left in the hands of Private Sector
- Government thru Cotton Development Organisation (CDO) retained the roles of regulation, coordination and promotion of cotton production, monitoring marketing and processing of cotton.
- Uganda's approach to fostering domestic value addition along the Cotton Value Chain have centred on:
 - Promoting cotton production
 - Strengthening cotton quality management
 - Reducing cost of production for investors
 - Marketing of cotton products

2. Fostering value addition to cotton in Uganda:

a) Promoting cotton production-

- Government thru CDO partnered with Private Sector (Uganda Ginners and Cotton Exporters Association - UGCEA) to support cotton production under the Cotton Production Support program.
- The Program supports cotton farmers with seed, pesticides, spray pumps, fertilizers and extension services.

b) Strengthening quality of cotton

- CDO monitors and enforces quality standards at farm and ginnery level. CDO renews the cotton grades bi-annually through both International Cotton Association – Liverpool and Bremen Cotton Exchange. On average 75% of Uganda's cotton is classed in the top 3 international lint grades.
- CDO also has a fully furnished laboratory for manual and instrument classing (HVI) of lint which is affiliated to Bremen Cotton Exchange for calibration and sharing of results.

2 c) Reducing cost of production for value addition

- Textile specific incentives/National initiatives;
 - Reduced power tariffs – **US\$ 0.05/kWh**
 - Buffer lint stocks
- General incentives for investors –
 - Tax holidays
 - Repatriation of profits
 - Income tax exemptions
- Capitalization of Uganda Development Bank (UDB) to provide affordable credit to investors.

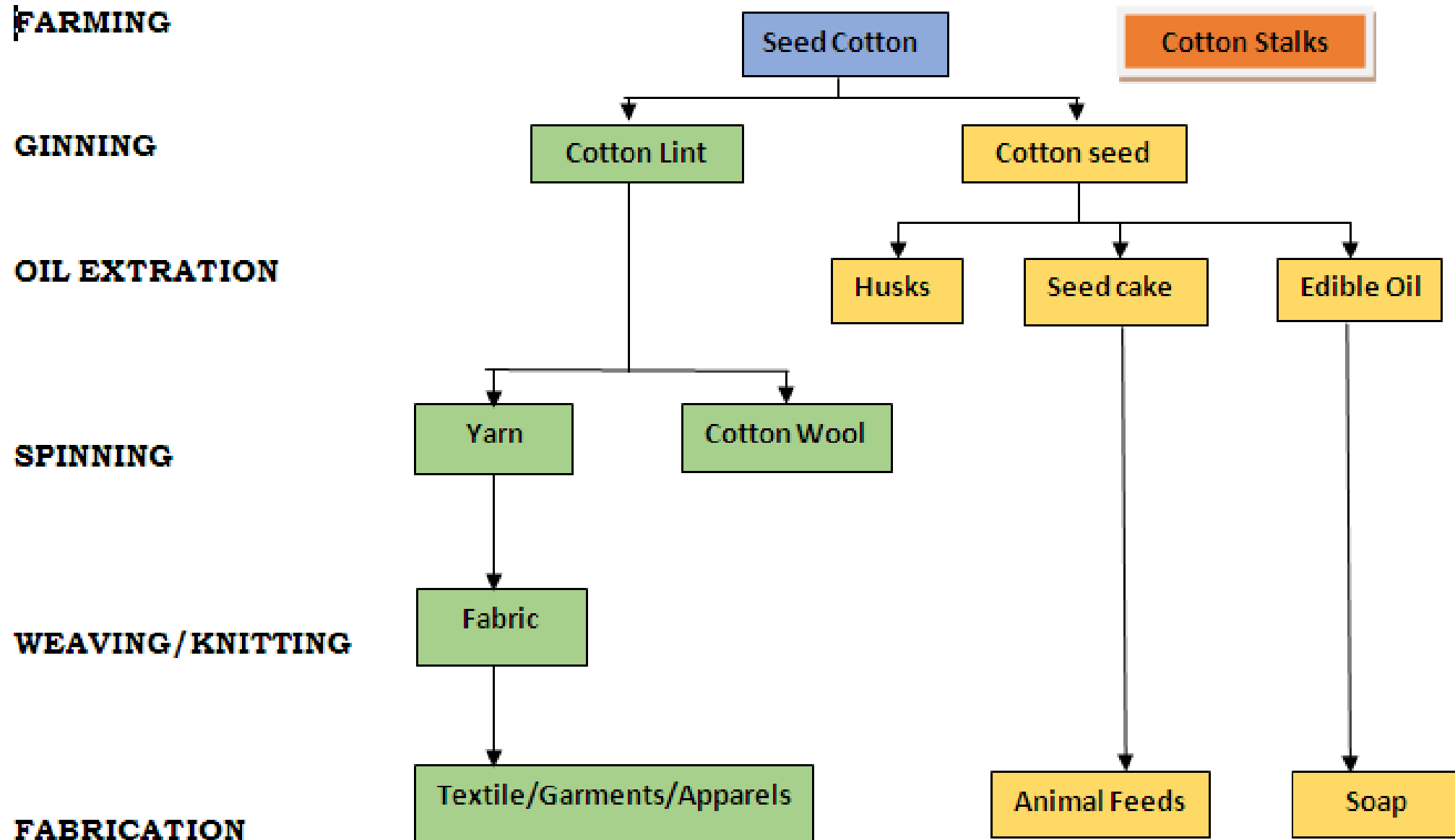
2 d) Markets for cotton products

- Locally made cotton products have access to markets such as:
 - EBA (European market under Everything But Arms)
 - Regional markets
 - Domestic market

3. Status of cotton value addition in Uganda:

- Ginning – there are currently 25 operating ginneries with combined installed capacity to gin 300,000 bales per annum. However, there are another 13 ginneries that are silent.
- Cotton seed processing - there are 13 mills with total installed capacity of 86,600 MT of seed per annum.
- Spinning & textile manufacture - there are 2 vertically integrated mills with a combined installed capacity of 24,500 spindles.
- Cotton wool manufacture - there are 6 factories with total installed capacity of 2,010 MT of cotton wool per annum.
- Handloom weaving by Textile Development Agency (TEXDA), mainly consumed locally and by the Tourism Sector.

Figure 1- The Cotton Value Chain in Uganda:



5. Legal/policy frameworks supporting domestic value addition to cotton

- National Development Plans III & IV
- National Textile Policy, 2009
- Buy Uganda Build Uganda (BUBU) Policy
- National Industrial Policy
- The Public Procurement and Disposal of Public Assets Authority (PPDA) Act - Regulations
 - Have provisions for reservation schemes to support BUBU

6. On-going initiatives:

a) Green field project

- Uganda Development Corporation (UDC), the investment arm of Government of Uganda, has completed a feasibility study of establishing a new spinning mill in Northern Uganda.

b) Brown field project

- UDC is also conducting due diligence and valuation studies for capacity expansion of two existing spinning mills.

Conclusion

- Value addition to cotton is crucial for achieving Uganda's vision of creating employment, increasing household incomes and import substitution.
- Given that domestic lint consumption is still low at about 10% of the total National lint production, the country can comfortably accommodate an additional 2 - 3 spinning mills.



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