

Stimulating Innovation to Transform Uganda's Economy



POLICY BRIEF 0222052

CENTER OF FAITH FAMILY AND JUSTICE

CADREEN BARUNGI KABAHI

Suggested Citation: Kabahizi, C.B. (2022). *Stimulating innovation to transform Uganda's economy*. Center of Faith Family and Justice.

Key Words: Innovation, Economy, Uganda

Title: Stimulating Innovation to Transform Uganda's Economy

Author: Cadreen Barungi Kabahizi

Editors: Rev. Lawrence Adams (PhD), Alex Thomas Ijjo (PhD)

Serial: CFFJ Policy Brief 0222052

Published by Center of Faith Family and Justice in May 2022

©Center of Faith Family and Justice

Copyright© Center of Faith Family and Justice (CFFJ)

The Center of Faith, Family and Justice is a Ugandan Christian Think Tank founded in 2021 to inform evidence-based research, policy, advocacy, and decision making at the national, regional and international levels. Our main focus is to investigate how the social, political and economic conditions of life affect faith, family and justice. We aspire to connect policymakers and citizens; and to build transformed, resilient, and integrated communities.

Disclaimer: The views expressed in this publication are those of the authors and do not necessarily represent the views of Center of Faith, Family and Justice.

Any inquiries can be addressed in writing to the Executive Director at the following address:

Center of Faith Family and Justice

P.O Box 150045

Mukono, Uganda

Tel: +256760130120

Email: info@cffj.or.ug

Web: cffj.or.ug





Content

Executive Summary.....	1
Introduction.....	2
What are these Market-Creating Innovations?.....	2
The current innovation climate in Uganda.....	3
Finding innovation opportunities.....	4
Pro-innovation systems put in place/supported by the Government of Uganda.....	4
Challenges to Innovation in Uganda.....	5
Policy Recommendations.....	6
References.....	7



Executive Summary

This policy brief on stimulating innovation to transform Uganda's economy presents a case for Innovation.

Innovation remains at the forefront of private-sector-led development and empowers the people to solve their own problems and the problems in society. Through innovation and entrepreneurship, people are able to create wealth and systems that support that wealth creation.

Uganda has done much to encourage entrepreneurship but the innovation sector is still struggling because not enough research and development and not enough funds are dedicated to promoting innovation. It is only recently that several initiatives like incubation centres have been put in place to develop the ideas of local innovators.

We find that innovation has the potential to spur growth and development from several different aspects. We also find that there are still several challenges that locals must overcome to harness the power of innovation. There is hope, however, as both the need and incentives for innovation are steadily growing.

We recommend several pro-innovation policies and initiatives that the Government of Uganda can put in place to support innovation, but most importantly, we call on Ugandans to take initiative and pro-actively pursue and invest in innovations for the good of the nation.



Introduction

In their book, *The Paradox of Prosperity*, the authors argue that market-creating innovations can transform economies, creating prosperity and wiping out poverty (Christensen, Ojomo, and Dillon 2019).

They liken anti-poverty approaches and their ineffectiveness to one whose aim is to avoid failure. Both attitudes reap very little. Instead, just as one is more likely to attain success when they aim directly for success, a country can achieve prosperity when it strives towards being prosperous.

Uganda and every other country striving to rise out of poverty could harness the opportunities for marketing innovation. Market-creating innovations would create jobs, generate income, and make significant tax contributions to the government. These innovations would transform Uganda's institutions, politics, and transparency levels.

What are these Market-Creating Innovations?

As opposed to sustaining innovations which sustain products on the market, and efficiency innovations which make production processes more efficient, market-creating innovations present either a new product to the public or make an already existing product that was out of reach to many easily available to them (Christensen et al 2019). Increasing accessibility is market creation because people who previously couldn't afford to purchase a given product suddenly find it within their reach. After all, the product has been tailored to meet the needs of these people with all their current limitations.

These market-creating innovations do several things:

1. **Create new (or tailor existing) products for consumption:** The products created (or made available) by these innovations usually have the potential to transform the lives of the consumers. Mo Ibrahim made cell phones and telecommunication accessible to the average African through Celtel. This product was previously far out of reach because investors did not expect Africans to afford the high costs of the product. Mo made the phone and the services cheap enough to serve the common African man, and it worked! He made millions in profits and transformed the African continent by making it interconnected and showing the world that investing in Africa is possible and could be profitable! (Christensen et al 2019)
2. **Create new jobs:** Market-creating innovations have been long known to create thousands of jobs. It requires a lot of labour to make, manage, market and distribute products. Uganda has suffered from unemployment and underemployment for a very long time. And every year, more and more graduates are churned out of Ugandan institutions, entering a labour force that is already too saturated. In addition to this, the number of school dropouts and uneducated people is still very high in Uganda. These innovations could provide gainful employment to both categories of people, transforming their lives and lifting them out of poverty.
3. **Generate income:** Market-creating innovations would generate income for the business creators, investors, and employees. Because these innovations also draw out the growth and development of related industries, a virtuous cycle of development is expected when market-creating innovations are successfully implemented.



4. Pay taxes: Innovations would also contribute significant amounts of money to Uganda's Revenue Authority through tax revenues. These much-needed funds would then be used to provide the much-needed infrastructure and services.

The current innovation climate in Uganda

The innovation industry in Uganda comprises both big enterprises and small enterprises. Matter-of-factly, the small innovation enterprises jointly employ a significant portion of Ugandans; Uganda's share of informal employment hovers around 80% (Rugasira 2016). For example, thousands of small carpentries jointly innovate and produce the majority of indoor fixtures and furnishings for Ugandan homes. Therefore, some innovative products have huge market bases within Uganda.

And occasionally, we see some industries single-handedly produce products that cover the whole country's market. Kituzi, for example, a local soft drink well known for its medicinal properties is one of its kind in Uganda's Beverage industry.

The Beverage industry alone has seen the rise of 'Bushera' drinks, many other local juices, fermented drinks like kombuchas, and many fruit wines. Commercially sold local alcoholic brews have also been on the rise for a very long time, ranging from the highly concentrated 'Uganda Waragi' to the mild 'banana juice'.

The Food industry has seen the rise of snacks not seen anywhere before, like local gonja crisps, cassava crisps, sweet potato crisps, roasted foods and the infamous Rolex (a chapatti and fried egg roll).

The Herbal medicine industry is also slowly growing in Uganda. The recent rise in popularity of Covidex, a herbal solution aimed at reducing the coronavirus symptoms in patients, helped Ugandans gain more trust in the herbal medicines that have been made available to them by professional and well-trained herbalists. This industry continues to grow as the trust, market and demand for these herbal remedies grow.

The craft industry has very many actors. The carpentry business is one lucrative sector that provides wooden furnishings for many homes: Most of the furniture in Ugandan homes is locally made. Very few Ugandans consume imported woodwork.

The hand-craft sector is also big, with thousands of weavers, tailors and shoemakers that jointly produce traditional clothings, baskets, mats, shoes, artwork and jewellery, each of which are consumed by almost every home in Uganda.

Safe Boda is a purely Ugandan innovation that provides much-needed 'safe and affordable options to thousands of boda-boda (motorcycle) riding customers available every day. Through an application, customers can find safe bodas nearest to them. They then enjoy their rides with more confidence because of the extra safety measures these boda riders take to ensure their customers arrive safely.

Solar energy: Although this sector has many actors that sell products not primarily manufactured in Uganda, Solar energy has indeed filled some market gaps in the nation. Millions of Ugandans live without electricity, most of whom live in rural areas. The demand for solar panels and other solar-powered electronics thus continues to grow as the unconnected feel the need for it.



Reusable sanitary pads have slowly risen in popularity given their high demand from impoverished households. School children who cannot afford to purchase sanitary pads monthly find reusable pads highly cost-effective. These reusable pads are also much more environmentally friendly, as they are not disposed of monthly and are bio-degradable.

The COVID-19 pandemic also saw the rise in several innovations. Suddenly, mask manufacturers and hand-sanitiser manufacturers sprung up and were able to amass fortunes from these endeavours (add reference).

Such and many others comprise innovations in Uganda, both small and big.

The field of Informational Technology (IT) continues to hold great potential for innovation, even for Uganda. Many groundbreaking innovations around the world are technologically driven. Uganda would do well to harness IT to do so much more..

Finding innovation opportunities

To find opportunities for innovation, entrepreneurs should learn to see problems and constraints as opportunities (Christensen et al., 2019). Identifying potential new markets is no easy task, but needs are all around us. An innovator must be willing to see beyond the discouraging scenarios to find the opportunities that call for innovations.

Non-consumption also always provides opportunities for consumption. Uganda, a country that still faces much poverty and many problems, is a ripe place for innovation opportunities.

Pro-innovation systems put in place/supported by the Government of Uganda

The Government of Uganda (GoU) has done much to promote an innovation-friendly environment.

Free market system

Although Uganda is a landlocked country, it enjoys a free market system that allows goods and services to flow freely following the Market's arms of demand and supply both within the borders of Uganda and to all countries willing to trade.

Promoting entrepreneurship

For many years, the GoU has encouraged entrepreneurship and innovation. Promoting youth entrepreneurship to solve the problem of unemployment, and supporting women entrepreneurship to support the local women who are usually uneducated, live on hand to mouth earnings and are stuck in a vicious cycle of poverty.

Authorities

Uganda created the Uganda Investment Authority to promote Foreign Direct Investments in the country. This authority promotes investments in Uganda and helps foreign investors settle in well, providing all the information they need for registration, capital acquisition, and other services (UIA n.d.).

Incubation Centers

Uganda has several incubation centres that have facilitated the thriving of innovation in Uganda. These provide a chance for the sharpening and cross-pollination of ideas. They also provide mentorship and support to innovators.



Uganda Investment Research Institute (UIRI)

Under UIRI, several businesses have started and thrived. UIRI currently provides in-house incubation to 39 enterprises and virtual incubation to 36 enterprises (UIRI n.d.). When the businesses are strong enough to get on their feet, they can ‘go into the world’ and thrive.

The Consortium for enhancing University Responsiveness to Agribusiness Development (CURAD) incubates agribusinesses of all kinds until they are up on their feet and can survive independently (CURAD n.d.). They provide managerial and technical advice and the necessary equipment to make their products.

The Uganda Investment Authority is setting up a mixed business incubation centre called Uganda Invest to incubate both start-ups and emerging businesses by providing mentors, training, shared space, professional assistance, and capital (UI n.d.).

Universities in Uganda are setting up incubation centres as part of their research & development, training and mentorship initiatives to provide their students with strong foundations as they venture into various innovations.

Makerere University has several well-established incubation centres: Makerere Innovation and Incubation Center (MIIC n.d.) and the Food Technology and Business Incubation Center (FTBIC n.d.).

Kyambogo University runs the Business Incubation Center that also supports the development of the innovative ideas of students and youth (KU n.d.)

In addition to all these incubation centres, many private innovation hubs have sprung up to support innovative ideas in ICT and other businesses. These provide shared workspace, mentorship, training and support to many start-ups. A few of these include the Innovation Village (IV n.d.), Response Innovation Lab (RIL n.d.), Mara Launchpad (ML n.d.), Outbox hub (OH), among others.

Challenges to Innovation in Uganda

The challenges facing innovation in Uganda today include:

1. The culture of westernisation and modernity has given many the impression that imported goods are ‘better/more modern’ than locally made goods. The Buy Uganda Build Uganda policy does much to create awareness about this and has promoted consumer awareness for products made in Uganda (BUBU n.d.). Moreso, producers are now aware of the need to create high-quality products to attract the market that can afford and is keen on high-quality products.
2. Uganda’s under-skilled population means many cannot fully exploit their talent and build their ideas to make meaningful contributions through innovation.
3. The lack of capital is still a limitation as it leaves many dreamers with their hands tied. Poverty levels in Uganda are still rampant, and many do not know how to access opportunities, incubation centres and other support systems available.
4. The cumbersome regulation and costs that go into starting and maintaining a business also derail many startups and businesses from starting or remaining in business. The Ease of Doing Business highlights several ways to create a more business-friendly climate for businesses (World Bank 2020).



5. Taxation rates in Uganda are generally quite high at about 30% per annum. This may discourage some locals from investing into the local economy.

Notwithstanding, the Government of Uganda has done much to promote entrepreneurship, micro-financing solutions like Savings and Credit Cooperative Organizations (SACCOs) and an environment that supports innovation.

Innovations can transform the nation because they provide a chance not only to solve problems within the country but to increase Uganda's export base which would in turn create great wealth for the country.

The Ugandan people must rise to create the products that would transform their country!

Policy Recommendations

1. **Increasing access to start-up capital** by providing loans at much lower rates. Commercial banks in Uganda provide loans at an absurd 20% per annum (World Bank, n.d.). These rates are too high for any startup business to finance comfortably. To make it worse, as few as 20% of Ugandans use commercial banking services, and as many as 50% of Ugandans hide their monies in a secret place in their homes (UNHS, 2019/2020). This shows the low interest people have in Uganda's commercial bank services. Providing loans at very low rates would give the locals a fighting chance to invest in innovations.

2. **Reducing regulatory procedures** and digitizing regulatory processes would allow small business owners to carry out their activities in a smoother manner.

3. **Continue promoting the Buy Uganda Build Uganda** campaign by promoting Ugandan products on both the national and international scenes.

4. **Protect local producers** by imposing higher taxes on imported products that are also made in Uganda, and subsidizing the production of local producers.

5. **Invest much more in Research and Development** to guide and inform the creation of new products. Research and Development are necessary if the country is to create unique solutions to problems in society

6. **Protect and reward innovators** by applying stringent intellectual property rights and patents of ownership.

7. **Promote the triple helix framework** in which industry works closely with academia and policy for innovation to thrive. The policymakers would create a conducive environment for investment, academia would provide the knowledge(how-to) for innovation and then the industry would invest and bring the knowledge to life.

8. **Encourage local investments.** Ugandans should be encouraged to increase their investments in the economy. The government should support local investors through protectionist policies such as offering subsidies, tax deductions and tax breaks to young enterprises even if for a brief time.



References

- BUBU. n.d. “BUBU Expo Official Website - BUBU Expo.” Accessed December 7, 2021. <https://www.bubuexpo.com/>.
- Christensen, Clayton, Efosa Ojomo, and Karen Dillon. 2019. *The Prosperity Paradox*. First. HarperCollins Publishers.
- “CURAD Incubation Center – CURAD Incubator.” n.d. Accessed December 6, 2021. <https://curadincubator.org/about-curad/curad-incubation-center.html>.
- FTBIC. n.d. “The Food Technology and Business Incubation Center (FTBIC).” Accessed December 7, 2021. <http://news2.mak.ac.ug/sites/default/files/downloads/Makerere-CAES-Food-Technology-and-Business-Incubation-Center-FTBIC-Info.docx>.
- “Home | Outbox Hub.” n.d. Accessed December 6, 2021. <https://outbox.co.ug/>.
- “In-House Incubation | Uganda Industrial Research Institute.” n.d. Accessed December 4, 2021. <https://www.uiri.go.ug/content/house-incubation>.
- KU. n.d. “Business Incubation Center - BIC - Kyambogo University.” Accessed December 7, 2021. <https://kyu.ac.ug/business-incubation-center-bic/>.
- “Makerere Innovation and Incubation Center - MIIC: Ideas, Innovation, Startups and Capital.” n.d. Accessed December 6, 2021. <https://miichub.com/index.php>.
- “Mara Launchpad.” n.d. Accessed December 6, 2021. <https://maralaunchpad.wordpress.com/>.
- Rugasira, Andrew. 2016. “Unpacking Uganda’s Informal Sector.” 2016. <https://www.independent.co.ug/unpacking-ugandas-informal-sector/>.
- “Services — Response Innovation Lab.” n.d. Accessed December 6, 2021. <https://www.responseinnovationlab.com/services>.
- “Supply - The Innovation Village.” n.d. Accessed December 6, 2021. <https://innovationvillage.co.ug/supply/>.
- UI. n.d. “Business Incubation and SME Work Spaces - Uganda Investment Authority.” Accessed December 7, 2021. <https://www.ugandainvest.go.ug/sme/business-incubation-and-sme-work-spaces/>.
- UIA. n.d. “Physical One Stop Center (OSC) at Uganda Investment Authority.” Accessed April 14, 2021. <https://www.ugandainvest.go.ug/osc/>.
- World Bank. 2020. “Doing Business 2020.” <https://doi.org/10.1596/978-1-4648-1440-2>.

Center of
**FAITH
FAMILY &
JUSTICE**



Innovation

Center of Faith Family and Justice

P.O Box 150045

Mukono, Uganda

Tel: +256760130120

Email: info@cffj.or.ug

Web: cffj.or.ug