

Macro market assessment Uganda

January, 2013

As a base for the country selection of the sustainable match project a desk study was executed to describe which sectors in Uganda are defined as emerging. Issues that were researched:

1. General figures of Uganda
2. Sustainability issues
3. Current activities & programmes in private sector development and sustainability, matchmaking or missions in Uganda
4. Local network of social entrepreneurs / value driven producers etc
5. Potential sectors to invest in (general)

Consulted sources:

- Desk study: FAO, WorldBank, Strategy Embassy to the Kingdom of the Netherlands in Uganda
- Food security experts Agri-ProFocus
- PSI Officer The Netherlands Enterprise Agency
- CBI Officer Uganda
- Netherlands African Business Council
- Local validation of the needs through interviews with producer organisations and stakeholders in the fruits & vegetables sector Uganda

1. General figures Uganda

- Real GDP growth slowed down in 2011 to an estimated 4.1%. Projections prepared for the 2012 [African Economic Outlook](#), suggest it will improve in 2012 to 4.5% and to 4.9% in 2013.
- 35 million habitants, of which 20 million in rural areas.
- World Bank report¹: At an average above 6.0 percent per year over the past two decades, Uganda's growth rate was impressive by all standards. In parallel, poverty declined significantly (56,4% in 1993 to 24,5 in 2010) not only in urban areas, but also to some extent within the rural areas. Accordingly, Uganda has already met the first Millennium Development Goal (MDG) of halving poverty by 2015.
- Social indicators continued to improve and in 2011 Uganda's Human Development Index increased to 0.446 from 0.422 in 2010.
- The World Bank's 2012 *Doing Business* report, which assesses and ranks the business environment in 183 economies around the world, downgraded Uganda's score by 4 positions in its 'Ease of Doing Business' ranking between 2010 and 2011, from 119th to 123rd. Slow progress in improving the investment climate in Uganda reflects problems in a variety of areas.

2. Figures agriculture in Uganda²

- Agriculture is the mainstay of the Ugandan economy, providing 14% of Gross Domestic Product, 85% of total export earnings, 73% of total employment, and the bulk of the raw materials used by the mainly agricultural-based industrial sector³.

¹ World Bank: Uganda - Promoting Inclusive Growth Transforming Farms, Human Capital and Economic Geography, Synthesis Report, February 2012

² CATALYST – Uganda Project

³ Data 2010, World Bank.

- The marketing system for the large majority of crops (with the exception of export crops such as high-value horticulture and coffee) is rudimentary. Poor post-harvest handling leads to losses of about 30%. Limited storage and marketing infrastructure results in unstable prices, forcing farmers to sell cheaply.
- Large-scale agro-processing in Uganda is dominated by cash crops such tea, coffee, sugarcane, cotton, and tobacco. Most industries in Uganda depend heavily on agriculture for raw material inputs. Uganda is promoting value-added exports, such as roasted coffee, palm oil processing, and cotton yarn. Agricultural processing is starting to develop in the processing and packaging of coffee, edible oils, tropical fruits, fruit juices, and nontraditional crops such as vanilla. Beyond this however, the processing sector is dominated by local small-scale processing which suffers from poor packaging, hygiene, marketing, distribution and limited capital.
- As a net agricultural exporter, Uganda has vibrant cross-border sales of produce, primarily to South Sudan through Oruba and Nimule, to Kenya through Busia, to the DRC through Mpondwe and to a lesser extent to Tanzania and Rwanda. While accurate data is hard to come by, analysis of informal trade by UBOS indicates that Uganda continues to be a net exporter to her neighbors in agricultural commodities with the leading destination for agricultural exports being South Sudan, Kenya and DRC⁴.
- As a member of the East African Community, Uganda has adopted free movement of in-country products with Rwanda and Kenya. Discussions are underway for eventual membership with South Sudan and DRC. However there are challenges related to implementation as some countries still apply taxes to agriculture imports from EAC member countries.

3. Sustainability and poverty reduction issues and opportunities

Although poverty has declined significantly and economic growth is impressive in Uganda, there are - according to the World Bank – some challenges that the country faces, these are:

- Income inequality has increased significantly over the past years
- Emphasis on transformation of the economy into high productivity areas through skill development and value addition could come with more concentration of economic activity and increasing inequality trends. Therefore, the very valid growth and development strategy would need to be complemented by integration policies that allow people to benefit from the growth process.
- oil will enhance growth prospects, but its effect on poverty reduction will depend on public policies more than on standard trickle-down results.
- As poverty declines, further poverty reduction achievements tend to be more and more difficult because there are groups in society that may fail to benefit from the growth process.

Uganda remains a poor country even by SSA standards, which currently average US\$ 1,127. Given the fast-growing population, - 3.6% is one of the highest in the world⁵ - Uganda would have to grow much faster than it has in the past to double per capita income in the next 15 years so it could edge closer to middle-income status.

⁴ “The Informal Cross Border Trade Survey Report 2009 and 2010”, Bank of Uganda and Uganda Bureau of Statistics, June 2011.

⁵ Ibid.

The 2011 Water and Environment Sector Performance Report concludes that the environment in Uganda remains under threat from natural and man-made factors, including poverty, unsustainable resource use, lack of enforcement of laws, rapid population growth, urbanisation, agricultural expansion and the impact of climate change. There has also been a general decline in wetland coverage, with the Lake Victoria and Kyoga drainage basins the most affected.

4. Transforming Agriculture – role of the government:

To sustain and accelerate inclusive growth the World Bank indicates that attention should be paid to four key issues: (a) transforming agriculture; (b) transforming human capital; (c) transforming across space or the economic geography; and (d) planning for increased urbanization, which will be inevitable as transformation of the agriculture, human capital, and space progresses.

The key policy levers for accelerating transformation and making growth more inclusive should hinge on the following:

- Improving prioritization of infrastructure investments toward promoting more economic density, tapping agricultural potential through better connectivity in producing areas while providing connectivity to support integration of leading and lagging areas
- Improving land usage to accelerate transformation from low-value production within and across sectors, and within and across space
- Ensuring equitable and efficient delivery of social services across locations
- Using special interventions to increase the living standards in the especially lagging areas, and to address other specific challenges of agricultural transformation, human capital transformation, and urban congestion.

For Agriculture specific: Uganda needs to ensure that the smaller holders (not only big farms) get access to basic infrastructure, finance, inputs, and institutions that will support their commercialization.

To accelerate the transformation of farms, the government's role will need to go beyond the current policy of subsidized technologies. The proposed reform agenda, while not entirely new, stresses how past public sector failures, which have constrained farmers (mainly smaller ones) to access and use new technologies, land, and credit, can be overcome.

- First, farmers need new technologies and need to access to them to raise farm yields and mitigate the negative impact of pests and diseases, as well as climatic changes. Stronger links between research and advisory services at the local level and between advisory services and farmers need to be promoted, especially for small farmers. Successful experiences in countries such as India have shown that organizing small farmers (including women) into groups brings high dividends because it helps attract service providers and reduce fixed costs associated with such programs. While the introduction of irrigation and indexed insurance schemes would help farmers manage climatic risks, those schemes need to be accompanied by preventive measures that are based on new information technologies, including social networks, information and communication technology (ICT) such as mobile phones, and other technological penetration methods.

- Second, agricultural development requires land security and an appropriate human settlement policy. Strengthening the security of land tenure through stronger laws is required to remove the current ownership overlaps, land wrangles, and disputes. The ongoing efforts to improve land registration are a step in the right direction and need to be followed by amending some provisions of the Land Amendment Act of 2010 to remove land right uncertainties and by increasing the funding of the Land Fund. The political economy challenges of land reforms abound, particularly given the cultural and ethnic bonds with land ownership in several parts of the country. As experiences in other countries including neighboring Kenya show, cultivating trust and adopting policies geared toward engendering government commitment to protecting land rights, especially in the customary owned land in the high-potential agricultural terrain of the north, will be critical.
- Third, improving access to agricultural credit needs stronger savings and credit institutions, legalization of leasing arrangements, and promotion of grant-matching schemes. Direct credit through the commercial banking system, as well as recently introduced agricultural support credit, has improved access to agricultural credit, but mainly for the large farmers. The smaller farmers, who often have no collateral, cannot access credit. To close the gaps, a more effective system of savings and credit cooperative organizations (SACCOs) needs to extend outreach within rural areas and specifically to tailor rural finance access to the needs of smallholder farmers. Given the collateral situation, designing new approaches to credit risk management, like use of better monitoring technology (e.g., fingerprinting) and commitment savings programs should help. Conversely, new innovations in ICT, such as mobile money, can help overcome required institutional frameworks for traditional credit institutions and can provide easy and cheaper access to finance. An independent leasing law would streamline the legal framework for leasing, while matching grants for farmers and use of warehouse receipts would raise access to finance.

Beyond the farm gate, the government needs to remove existing bottlenecks to commercialization by improving (a) the connective infrastructure from producing areas to markets, (b) the investment climate for agroprocessors, and (c) the institutional framework to support delivery of agricultural services. Stepping up investments in connective infrastructure in areas with high agricultural productivity, high agricultural potential, and links to the market is needed. On average, a farmer travels 5.8 kilometers to access a market, farther in some areas, particularly the north, yet rural roads are mostly seasonal. Furthermore, landlocked Uganda needs to ensure connectivity for access to ports to expand markets for its increasing commercialized agriculture. This emphasis on port access would require a more efficient system of allocating resources for infrastructure investments, including choosing between road maintenance and new road construction, and prioritizing road investments that are based on agricultural potential, cross-border trade opportunities, and load consolidation. More success in agribusiness, including agroprocessing (the bulk of which currently operates at only 50 percent capacity) will thrive on lower costs of operation including energy and transport.

The current institutional arrangements have failed to deliver agricultural transformation particularly given the gaps in extension services, regulation, and inspection of non-NAADS services. A multitude of private and public institutions providing support to farmers exist, but there are significant gaps in extension services, regulation, and inspection. The National Agricultural Advisory Services (NAADS),

which is currently the main public channel for delivery of those services, lacks the capacity and appropriate mechanisms for delivery and is also encumbered with political intervention. Extension services, for instance, are scattered among private entities and nongovernmental organizations (NGOs) except for traditional cash crops such as cotton (Cotton Development Organisation), coffee (Uganda Coffee Development Authority), and dairy (Dairy Development Authority). The reform of the Ministry of Agriculture Animal Industries and Fisheries (MAAIF) under the 2010 restructuring exercise addressed some of those shortcomings, but it urgently needs to be implemented. In contrast to the more intrasectoral focus that is espoused in the current agricultural sector Development Strategy and Investment Plan (DSIP), agricultural transformation interventions are multisectoral and hence require better coordination among the various institutions to minimize duplication, which dissipates effort, consumes more resources, and undermines efficiency and value. For example, to ensure that NAADS remains focused on its core mandate of providing information and technical advice to farmers, it must not be overloaded with delivery of inputs and veterinary services.

For SMEs:

Establish a mechanism for private sector participation in skills provision. Learning from the experiences of other countries, the government would need to increase private sector engagement in skills provision. Although large firms can be encouraged to integrate training into their own capacity-building programs, partnerships between the public and private sectors are often useful to promote vocational and on-the-job-training programs for small and medium enterprises (SMEs) that do not have the human and financial resources to launch their own activities. Initiatives such as Enterprise Uganda need to be promoted and expanded to meet firm demand for skills, and mechanisms must be developed for generating sustainable financing through collaboration with the private sector.

Support for small and medium enterprises (SMEs) is essential because they operate under tight constraints that mitigate against participation in training (e.g., cash-flow problems, inability to release workers, and lack of knowledge and expertise about training). Tailoring training services toward SMEs (e.g., through vouchers to relieve the cash-flow constraints, technical assistance to assess needs and design programs, flexible delivery to alleviate some constraints of SMEs, and simplification of procedures) would ensure that the SMEs get the training needed.

5. Current programmes, activities, missions etc.

CBI: current programmes:

- The BSO Development Programme for the [East African Community](#)
- Export Development and Promotion Programme Natural Ingredients.

Programmes (closed for application): [Tourism 2008 - 2014](#) and [Fresh Fruit and Vegetables 2008 - 2014](#)

The agricultural sector is by far the most important sector in East & Southern Africa in terms of its contribution to GDP, its (European) export potential, and the high proportion of poor people among its workforce. The best chances are for products produced sustainably, for example [certified organic](#), [Fair trade](#), [Utz](#) or [Rainforest Alliance](#), since the demand in Europe for quality products is increasing.

- The *oilseed value chain* that has emerged in *Uganda* now encompasses farmers and a wide range of other stakeholders. The activities of all these stakeholders add up to a viable and competitive process that benefits all participants. The various actors in the agricultural sector realised that they had to get organised, and producer associations such as the Uganda Oilseed Producers and Processors Association (UOSPA) emerged. Through the association, farmers are also able to take advantage of group savings and credit schemes.
- *Coffee* is one of the most important cash crops in *Uganda* playing a major role in improving the livelihoods of many poor people and is a major foreign exchange earner in Uganda. There are great opportunities for Ugandan coffee in market specialisation and segmentation. Whether dealing in Robusta or Arabica coffees, worldwide trends are moving toward increased specialisation. Most coffee farmers in Uganda do not apply agro-chemicals and, therefore, would not find it difficult to submit to certification procedures without affecting current yields and volumes significantly. Certification (Utz, Fair Trade, organic, etc.) might be an essential step to take.

Most of the constraints that are found by CBI in these export value chains, can be generically summarized as follows:

1. Production quantity and quality do not sufficiently meet (EU) standards;
2. Technical, scientific and commercial information about products is not available or difficult to access and hardly oriented to private sector needs;
3. Institutional support in export value chains is not always existent or does not cater the needs of the SMEs/exporters;
4. In some countries, sector export policies are still under formulation, for which reason opportunities are missed in markets for (organic) natural ingredients.

CBI aims to increase exports to the European market. The main objective of the programme will be sustainable export increase of Natural Ingredients (of EUR 12 mln) per the end of 2016, from mainly Kenya, Uganda, and Ethiopia. This will be done through:

- Direct assistance to SME exporters through [export coaching programmes](#) that includes capacity building and market entry support;
 - Assistance to [business support organisations](#) – including sector associations - in building and improving their services to the export communities;
 - Tailored [market intelligence](#) for specific Product Market Combinations.
- Involving relevant importers in the design and implementation of the programme.

CBI targets local relevant players in the export value chain of coffee, tea and oilseeds, being importers in the regional or European market, producers/exporters, business supporting organizations and policy makers in recipient countries.

Trade missions:

In the past, NABC organized a multi sectoral trade mission to Uganda and Rwanda with the participants:

NABC trade mission uganda participating companies (www.nabc.nl)		
Bakkers Brothers	Seeds	www.bakkerbrothers.nl

Multi - trex Integrated Foods PLC	Cocoa	www.multi-trexplc.com
Fabrication Systems	Oil	
Larive International	Business development and investment in Emerging markets	www.larive.nl
Remco Afrique	Storage	www.remcoafrique.com
MushComb	Agriculture	www.mushroommachinery.com
Oskam	Livestock storage	www.oskam-vf.com
Alliance Plus	Business development and investment in Emerging markets	www.allianceplus.nl
Sweerts Consult	Training & development	www.sweerts.nl

6. Local network of social entrepreneurs / value driven producers etc

Agri-Hub Uganda:

Strategically, for 2012 the APF Uganda Agri-Hub is aiming for continued growth in membership, particularly with regard to local agri-businesses. Thus, the Hub will broaden its foundation for investment and trade opportunities for banks, Dutch and local businesses in relation to farmer entrepreneurs. Services of the Agri-Hub in that respect will include:

- Active linking to private sector promotion instruments from the Netherlands in coordination with the Embassy of the Kingdom of the Netherlands (EKN).
- Establishing linkages with existing commodity platforms (such as on oilseed, coffee, pineapple, ...)
- Organize business scoping and matching events nationally and internationally
- Brokering for joint resource mobilization e.g. with aBi Trust and other donors

See: <http://apf-uganda.ning.com/>

Eastern African exporters: <http://www.eacelexport.com/home.html>

For market trends per sector, export coaches and match making (via CBI)

Company database CBI for Uganda

AMFRI Farms Ltd./ African Organics

1 Products: Fresh pineapples, apple banana, ginger and passionfruit. Dried pineapples and apple banana. Inio

Coseda Enterprises Ltd

2 Products: hot peppers, okra, avocadoes, passionfruit, apples, bananas, sweet potatoes Export to: The Netherlands, UK EurepGAP in process Hot Peppers, okra, avocadoes, passionfruit, apples, bananas, sweet potatoes; Export to: The Netherlands, UK; Certific

Esco Ltd.

3 Products: Vanilla.

Horn Products Limited

4 articles of cow horns for home decoration and gifts

- 5 [Ibero Ltd](#)
Product: Coffee
- 6 [Jaksons Uganda Limited](#)
Products: Chilies; Avocadoes.
- 7 [Kubira Enterprises Ltd.](#)
Product: Basket ware such as planters bowls, place mats, trays, hats, shopping baskets
- 8 [Lake Products & Services Ltd.](#)
Birds Eye Chillies, African Ginger
- 9 [Marie-Sar Agencies Ltd.](#)
Ladiesbags, writing cases
- 10 [NOGAMU National Organic Agricultural Movement of Uganda](#)
Product: Coffee, dried fruits, cotton, soy beans Export to: Europe
- 11 [Outspan Enterprises Ltd \(NOGAMU\)](#)
Products: Organic red birdeye chillies, sliced dry ginger, cocoa, sesame seeds, maize, beans, coffee beans and cotton. Certification: IMO / NOP, Naturaland, Biosuisse.
- 12 [Reco Industries Ltd.](#)
Product: Papain (proteolytic enzyme) Export to: Europe
- 13 [Sulma Foods](#)
Products: Pineapples, Passion Fruits, Sweet Potatoes, Hot Peppers; Export to: UK, United Arab Emirates. Certification: Organic, EurepGAP in Progress.
- 14 [Taimex Uganda Limited](#)
Product: Cured aromatic natural vanilla beans. Vanilla
- 15 [Uganda Crop Industries Limited / UCIL](#)

Huge need for food security ... therefore a huge opportunity to invest in agricultural productivity

GDP by sector in Uganda

<http://www.africaneconomicoutlook.org/en/countries/east-africa/uganda/>

Recent Developments & Prospects:

	2006	2010
Agriculture, forestry, fishing & hunting	24.5	22.9
Agriculture, livestock, forestry and fisheries	-	-
of which agriculture	-	-
Mining and quarrying	0.3	0.3
of which oil	-	-
Manufacturing	7.5	8.3
Electricity, gas and water	4.2	4.2
Electricity, water and sewerage	-	-
Construction	12.1	13
Wholesale and retail trade, hotels and restaurants	19.1	22
of which hotels and restaurants	-	-
Transport, storage and communication	6.5	9.6
Transport and storage, information and communication	-	-
Finance, real estate and business services	10.4	7.3
Financial intermediation, real estate services, business and other service activities	-	-
General government services	-	-
Public administration & defence; social security, education, health & social work	-	-
Public administration, education, health	3.9	3.5
Public administration, education, health & other social & personal services	-	-
Other community, social & personal service activities	-	-
Other services	11.5	8.9
Gross domestic product at basic prices / factor cost	100	100
Wholesale and retail trade, hotels and restaurants	-	-

Figures for 2010 are estimates; for 2011 and later are projections.