REPORT ON OPPORTUNITIES IN AGRICULTURAL TRADE AND INVESTMENT IN UGANDA

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EXECUTIVE SUMMARY

The Minister for Agriculture and Land Affairs, Mr Derek Hanekom, recently led a trade and technical mission to Uganda. Uganda has abundant agricultural resources and offers many opportunities for investment in agricultural production and agro-processing, as well as for trade in agricultural inputs and products.

Overview of the Ugandan economy

Uganda became independent in 1962, but mismanagement by General Idi Amin during 1970 to 1980 and a damaging war to remove him, ruined the economy. Only subsistence farming and the small-scale coffee sector survived in some reasonable order.

The National Resistance Movement (NRM) government came to power in 1986 and announced the Economic Recovery Program (ERP). This aimed to rehabilitate the production sectors and critical infrastructure, reduce inflation and to address the crisis in the balance of payments, which left the country with very low reserves. Since 1986, significant progress with the rehabilitation of infrastructure such as roads, railway facilities, the Entebbe International Airport, telecommunication links and electricity supply was made.

Uganda has a population of approximately 20 million people, of which 11% is classed as urban. The expected population growth rate by the year 2000 is 3.3% per annum.

Overview of the Ugandan agricultural and agro-processing sector

The economic output is dominated by agriculture, which was responsible for 44% of GDP in 1996/97. Manufacturing contributed 8.6% of GDP in 1996/97. Most manufacturing is based on the processing of agricultural products. Agriculture employs over 80% of the labour force and also accounts for over 90% of export earnings.

Uganda forms part of the East Africa plateau. Favourable conditions for the cultivation of food and cash crops are found in most areas. Continuous cultivation is carried out where the rainfall is reliable and two to three crops per year are attainable. More than 75% of the land is available for cultivation or pasture. However, large areas are under-utilized. Land tenure systems are a mixture of traditional practices, colonial regulations and post-colonial legislation and vary from region to region. The co-operative network has played an important role in assisting farmers in the past two decades.

Agricultural production comes almost exclusively from 2.2 million smallholders, mostly working 2 to 3 hectares of land, using traditional methods of cultivation and family labour. Products include food crops (such as plantains, cassava, sweet potatoes, millet, sorghum, maize, beans, groundnuts and sesame), livestock and export crops (coffee, cotton, tea and tobacco). Some high value crops (e.g. cut flowers and certain vegetables and fruits, are also being exported. Agricultural products to a value of US$491.1 million were exported during 1996. Uganda is normally self-sufficient in food production. Crop marketing is handled by co-operatives, marketing boards and private companies.

Investment opportunities

The NRM Government has embarked on the road of privatization. For this purpose, the Uganda Investment Authority (UIA) was established to assist investors to implement their plans and to advise Government on investor-friendly policies and structural. A number of investment incentives are available. An abundant raw material base and access to growing regional and domestic markets are further advantages. Some investment opportunities in agriculture and agro-processing include cut flower production for exports, oil seed production and processing, cotton production, ginning, spinning and weaving, the production and processing of livestock products, fruit and vegetable production and value adding with regard to coffee and grains. There are many opportunities in Uganda’s privatisation program as well.

The recent trade and technical mission

During the mission led by Minister Hanekom in July 1998, a declaration of intent between the South African National Department of Agriculture and the Ugandan Ministry of Agriculture, Animal Industry and Fisheries was signed. This aims to facilitate co-operation in the fields of agriculture and the food processing industry through, e.g. joint scientific, technical and production ventures and projects.

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Overview of the Ugandan economy

Uganda became independent in 1962. But mismanagement by General Idi Amin during 1970 to 1980 and a damaging war to remove him, ruined the economy. GDP fell by 20% from 1970 to 1980 and the infrastructure and capital assets became decrepit. Only subsistence farming and the small-scale coffee sector survived in some reasonable order.

The National Resistance Movement (NRM) government under President Yoweri Museveni came to power in 1986 and announced the Economic Recovery Program (ERP). This aimed to rehabilitate the production sectors and critical infrastructure, reduce inflation and to address the crisis in the balance of payments, which left the country with very low reserves. This was to be done through measures such as the promotion of exports, reform of the agricultural policy to restore producer incentives by removing price controls and abolishing parastatal marketing monopolies, the encouragement of foreign investment and the reform of the budget procedures. Since the launching of the ERP, the government has made steady progress in macro-economic stabilization. The inflation rate fell from 54.5% in 1992 to 6.7% in 1996 and the exchange rate has been stabilized. Low domestic tax revenue remains a problem. The GDP growth rate averaged 5% per year since 1986. The economy is, however, very dependent on rainfed agriculture, and therefore the performance of the economy from year to year reflects variations in weather conditions. Tourism is one of the fastest growing sectors of the economy.

Since 1986, considerable progress was made in the road rehabilitation program. Major trunk roads were resurfaced and the condition of most roads has been much improved. Railway facilities are also being rehabilitated and upgraded. The Entebbe International Airport has been upgraded and 16 airlines have regular scheduled flights to Entebbe, including British Airways and Alliance Air. However, cargo-handling facilities, especially cool storage, are still inadequate. There are international telecommunication links and most parts of the country have been linked by a microwave network. Almost 90% of Uganda’s total energy requirements are met from sources other than electricity and oil (mostly wood and charcoal). There is an urgent need to find other energy sources. Uganda has the potential to generate 2000 Megawatts of hydro-electricity. The Owen Falls power station is at present being upgraded. Much of the electricity network is still in a poor condition. Eighteen rural electrification programs have been identified and a number have been implemented already.

Uganda has a population of approximately 20 million people, with an expected population growth rate by the year 2000 of 3.3% per annum. Only about 11% of Ugandans are classed as urban. The distribution of the rural population tends to be a reflection of the agricultural potential. AIDS is the leading specific cause of death among adults.

The economy is dominated by agriculture. Manufacturing contributed 8.6% of GDP in 1996/97. Most manufacturing is based on the processing of agricultural products, such as coffee, cotton, sugar and food crops. In 1992, manufactured goods constituted 72% of imports. A GDP growth rate of 5% was recorded in 1996/97, while the consumer price inflation was 7.1%. The exchange rate of the Ugandan shilling was NUS1015/$.

Tourism is the fastest growing sector of the economy, with an average growth rate of 18% over the past 4 years. This is mainly due to the improved internal political situation, an improvement in tourist amenities, liberalization of the economy and the recovering of air transport links.

Overview of the Ugandan agricultural and agro-processing sector

The economic output is dominated by agriculture, which was responsible for 44% of GDP in 1996/97. Agriculture employs over 80% of the labour force and also accounts for over 90% of export earnings. Total GDP amounted to US$5.4 billion in 1995, compared to US$134 billion in the case of South Africa. Most agricultural production takes place in the south, where the climatic conditions have always supported the densest rural populations.

Uganda forms part of the East Africa plateau, mostly at an altitude of 1000 to 3000 metres above sea level. It has an equatorial climate, modified by altitude. Most areas receive 1000 to 1500 mm of rainfall per year. Temperatures vary between 15 and 25°C. The natural vegetation ranges from forest to savannah. Favourable conditions for the cultivation of food and cash crops are found in most areas. Continuous cultivation is carried out where the rainfall is reliable and two to three crops per year are attainable. More than 75% of the land is available for cultivation or pasture. However, large areas are under-utilized. Only 8 million of the 40 million acres of arable land were being cultivated in 1997. Land tenure systems are a mixture of traditional practices, colonial regulations and post-colonial legislation and vary from region to region. The most widely found system is "customary tenure", which does not recognize the right of the individual to own land, although he or she may use land subject to the approval of family, clan or community. The co-operative network (over 5000 at village level) has played an important role in assisting farmers in the past two decades.

Agricultural production comes almost exclusively from 2.2 million smallholders, mostly working 2 to 3 hectares of land, using traditional methods of cultivation and family labour. South Africa could therefore learn valuable lessons from Uganda with regard to commercializing its own small scale farming sector. Food crops (plantains, cassava, sweet potatoes, millet, sorghum, maize, beans, groundnuts and sesame) represent 60% of agricultural GDP, livestock 19% and export crops (coffee, cotton, tea and tobacco) 12%. Some high value crops, such as cut flowers and certain vegetables and fruits, are also being exported. The government is developing a strategy to encourage exports of both food crops and high value crops, in order to diversify exports. The total value of Ugandan agricultural exports amounted to US$491.1 million in 1996. The most important products exported to South Africa and the BLNS countries were coffee, tobacco, fresh cut flowers, ginned cotton and oilseeds.

Uganda is normally self-sufficient in food production. This means that the small scale farming sector is successful in providing food for a population of almost 20 million people. Subsistence production is the norm and only about one-third of food crops are marketed. Crop marketing in Uganda takes place within a policy of trade liberalization, which corresponds to the situation in South Africa. Crop marketing is handled by co-operatives, marketing boards and private companies. The export monopolies previously enjoyed by marketing boards have been removed in line with the general policy of liberalizing trade. As a result of this, coffee producers' earnings have increased from 20% to 84% of the free-on-board value of coffee exported.

Uganda has 5 million heads of cattle and 6 million goats. There is still scope for expansion of this sector. Measures were implemented to improve disease control, upgrade the stock, provide infrastructure, expand supporting industries, promote industrial linkages and encourage exports. The dairy sector has already attracted a number of companies that have established milk-processing plants. There is also scope for investment in abattoir facilities for both red meat and poultry.

Uganda is endowed with abundant fresh water resources – 17% of the total area is covered by lakes, rivers and swamps. Fisheries account for 3% of GDP, with the sustainable harvest estimated at 300 000 tons per annum. The control and irradiation of water hyacinth has been initiated. The Agricultural Research Council has also been approached in this regard.

Investment opportunities

The NRM Government has embarked on the road of privatization. A number of state-owned companies, e.g. cotton ginners, dairy processing facilities and the Uganda Seed Project, have been earmarked for privatization. The Ugandan Government encourages foreign investment in their country.

For this purpose, the Uganda Investment Authority (UIA) was established. It is a statutory body that serves as a one-stop centre for promoting Uganda as a business location for investment by foreign and domestic investors. It assists investors to implement their plans, advises Government on investor-friendly policies and structural requirements and is responsible for licensing foreign investment. During the period 1991 to 1996 a total of 1 053 investment projects were implemented, comprising a total investment of US$1.34 billion and providing 80 133 employment opportunities. Of these, 38% are foreign-owned, while 24% are joint ventures between Ugandans and foreigners. The most important sources of foreign investment (in terms of number of projects) were the United Kingdom, Kenya and India. However, in terms of the value of investment projects, South Africa ranks third as source of investment. South African companies that have invested in Uganda include South African Breweries, MTN, Alliance Air, Multi Choice and Metro Cash 'n Carry.

Some investment opportunities in agriculture and agro-processing highlighted by the Executive Director of the UIA, Mr Yob Yobe Okello, include cut flower production for exports, oil seed production and processing, cotton production, ginning, spinning and weaving, production and processing of livestock products, fruit and vegetable production and value adding with regard to coffee and grains. Several investment opportunities in tourism, manufacturing and services were also identified. There are many opportunities in Uganda's privatisation program as well, e.g. the Uganda Dairy Corporation. Although foreigners are not allowed to own land in Uganda, leases, ranging from 5 to 99 years, are available.

A number of investment incentives are available, including capital allowances and operational expenses deductible from a company's income and deductible annual allowances for depreciable assets. A uniform corporate tax rate of 30 percent is applied. The foreign exchange regime has been fully liberalised and there are no restrictions on the movement of capital in and out of the country. The Ugandan population is reasonably well trained, with a fair number of graduates. Labour legislation include aspects such as medical, pension and leave benefits. Uganda has a growing and open economy with a government committed to private enterprise. An abundant raw material base and access to growing regional and domestic markets are further advantages. Uganda has access to the East African market comprising 74 million people, Comesa (with 23 member countries and 300 million people), as well as duty free and tariff quota access to the EU in terms of the Lomé Convention and duty free access to the US market for certain products under the GSP system.

The Uganda Manufacturers Association annually organizes the Uganda International Trade Fair. This is a multi-sectoral trade event that plays a leading role in facilitating trade and business exchange among participating countries. The number of exhibitors has increased from 220 in 1993 to 385 in 1997. Twenty-two countries were represented at the 1997 event. This year's event is scheduled to take place from 6 to 11 October in Kampala.

The recent trade and technical mission

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The following fields were specifically identified for trade and co-operation between South Africa and Uganda:

- co-operation in agricultural research
- cattle breeding and stock improvement
- animal disease control
- fruit production and canning (especially pineapples)
- fruit juice production
- flower production
- management of cattle and game ranches
- quality control of foodstuffs (specifically fish for the export market)
- timber production

Uganda is a land-locked country and is dependent on Mombassa harbor in Kenya for most of its imports and exports. From there, road transport is mainly used, but rail transport is also an option. Any prospective exporter to Uganda would be well advised to link forces with a forwarding agent that has offices in all countries through which cargo has to pass, as it would be simpler to deal with only one agent. It is also important to plan well in advance when cargo is shipped to Uganda, as delays may occur, especially in Mombassa harbor. Where possible, the use of airfreight should be investigated.

Summary

The Ugandan economy is agriculture based. The country is largely self-sufficient with regard to food crops. It therefore does not offer a market for South Africa's primary agricultural products, but it may offer a market for manufactured goods, e.g. canned food. In the medium to long term, the country offers investment opportunities, as raw materials are available. The production of such inputs can still be increased significantly, as the agricultural production potential of the country is still largely undeveloped. Uganda does offer a market for agricultural inputs and technology. The level of fertilizer application is relatively low and South African companies can develop this market, as well as the market for various other agricultural inputs. Agricultural technology, such as seed, quality breeding animals, modern production techniques and relevant research, is in demand and can contribute significantly to the development of Uganda's agricultural potential.

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