UGANDA-SWEDEN TRADE REPORT 2020

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Embassy of Sweden
Kampala

THE SWEDISH TRADE & INVEST COUNCIL

BUSINESS SWEDEN

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1.0 Introduction

The purpose of this report is to highlight the key opportunities and challenges that potential investors or traders from Sweden may need to know in order to make key business decisions when doing business in or with Uganda.

One of the main objectives of the Embassy of Sweden in Uganda is to increase the trade and business between Uganda and Sweden, in collaboration with Business Sweden. In this regard, there was inherent need to have a comprehensive study and analysis of the business climate in Uganda, so as to be able to encourage trade and investment between the two countries. This report seeks to answer the many questions pertaining to business in Uganda.

The report also highlights the status of the key sectors of the Ugandan economy which hold the highest investment potential. The challenges faced by businesses, and trade barriers, are also mentioned such that potential investors can have a wholesome picture as to what doing business in Uganda entails.

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2.0 Country Outline

Land Area:	197,323 square kilometres
Population	Total projected population of 40.3 million for 2019 with a population growth rate of 3%.
Location:	Uganda borders Kenya to the East, South Sudan to the North, the Demo cratic Republic of Congo to the West, Rwanda to the South-West and Tanzania to the South.
Languages	English, Swahili, Luganda and other local languages
Capital	Kampala
Time Zone	+3 GMT (Nairobi)
Flight to Sweden	Daily flights connecting through Amsterdam, Brussels, Addis Abeba and Dubai with no current direct flight to Sweden from Uganda.
Form of Government	Democratically elected president with three arms of government; The Executive, Legislative and Judiciary.
Total GDP	Approximately USD 34.2 billion (current market prices 2016/17)
GDP Per Capita	Approximately USD 878 per annum (nominal GDP per capita)
GDP Growth Rate	6.5% for FY 2018/2019
Inflation	2.6% for CY 2018
Currency	The Uganda Shilling (UGX)
US$ Exchange Rate	US$ 1 = UGX 3,700 (approximately)

3.0 Political Overview

President Yoweri Museveni has been the head of state of Uganda since 1986 and all indications are that he will stand again in 2021 as the flag bearer for the National Resistance Movement (NRM) party. In late 2017, Uganda's parliament amended the constitution to remove the age limit of 75 years for the head of state.

Historically, Uganda has been relatively stable since the end of the rebellion of Joseph Kony in northern Uganda. However, Uganda and especially Kampala has been on alert since July 2010 when the terror group Al-Shabaab carried out a twin-bomb attack during the football World Cup finals in Kampala. Security and intelligence have since been heightened which have managed to foil several terror plots in the country over the years.

Preparations for the next elections in 2021 have already started, and there is therefore an increased likelihood of demonstrations and protests which can affect the business climate.

Uganda has a vibrant media scene. However, there are reports of increased self-censorship by journalists who are sometimes targeted by the government through the regulator, the Uganda Communications Commission (UCC). Several journalists have been subjected to harassment, intimidation and arrests by the security forces. Uganda's prolonged border closure with Rwanda since early 2019 has also affected Uganda's export earnings, with discussions between the neighbors not leading to any lasting solution yet.

Corruption by public officials remains a key obstacle for Uganda's development with not enough punitive measures to reduce the scourge. We elaborate more on this in this report.

Despite the above, Uganda remains relatively stable and has become attractive for Foreign Direct Investment (FDI) and trade due to the burgeoning extractives industry and improvement of value added outputs in its agricultural sector among others.

Credit: Mona Loose/imagebank.sweden.se

4.0 Economic Overview

Since 1986, the Ugandan economy has been able to realize significant growth and development. This can be attributed to the various economic policy reforms set by the government that have helped the nation achieve macroeconomic stability and have promoted private sector led growth.

These policies include export diversification policies, investment promotion policies, institutional building policies and liberalization of the economy and financial markets. The government has also more recently focused on improvements of the country's physical infrastructure (roads, hydropower plants etc.) together with security which has improved the economy by providing access to markets for businesses and cheaper and more stable power sources among others.

GDP has been able to grow at an average of 5.3 percent over the last 5 years and inflation during the 2018 CY stands at 2,6 percent (down from 5.6 percent in 2017) with the government target of between 3 and 6 percent being met. It can also be noted that Uganda's position improved from position 127 to 116 in the 2020 edition of the World Bank's Doing Business report, which can be attributed to the improved monitoring and regulation of electricity outages in Uganda among other things.

Foreign remittances from Uganda's migrant workers stands at over USD 1.5 billion and have in recent years overtaken gold and coffee as a major foreign exchange earner for the country. Unfortunately, most new projects undertaken by the government are financed by foreign debt, which has been increasing over the years and is predicted by the IMF to reach 50.7 percent of GDP by June 2022. It is envisaged that the revenues realized from the commercial production of petroleum in Uganda are expected to be used to clear the increasing external debt, however, this remains to be seen as commercial production of oil is expected after 2023.

With a population of over 40 million people and one of the highest growth rates in the world, the purchasing power of the ordinary Ugandan still remains quite low. With an annual per capita income of approximately USD 870, the population therefore earns nominally above USD 2 a day. Most of the market in Uganda is centered around Kampala (the capital city) which has a population of less than 3 million people, of which only about 35 percent are gainfully employed. This therefore limits the consumption of quality imported products to the very rich or the upper middle class.

According to the draft National Development Plan III, Uganda hopes to achieve middle income status within the next 5 years with a plan on attaining higher middle income status in 2040. This timeline is quite optimistic considering the short time frame. In order to boost trade in Uganda, a portal has been created to provide trade information to importers and exporters in one place in order to reduce non-tariff barriers to trade. It can be found on the link: https://ugandatrades.go.ug/

4.1 Agriculture

Agriculture is still the main livelihood for Ugandans employing over 70 percent of the working population. It contributes to approximately 23 percent of the country's GDP and is currently the backbone of the economy. Most of the industries and service sector businesses spawn off the agricultural sector in form of food processing for agricultural produce and service delivery to the sector.

Uganda exports food crops to the region and is a major exporter of coffee, fish and tea among others. Coffee is Uganda's biggest export product with approximately 270 000 tonnes of coffee exported in 2019, with tea volumes reaching approximately 70 000 tonnes and cotton at 27 000 tonnes in 2018.

The Ugandan government continues to put effort in increasing the exports of these commodities. The agricultural sector however faces several challenges including poor road networks linking the farmers to the markets, the fluctuation of prices of agricultural products (both locally & internationally) and the lack of credit facilities extended to agriculture to help farmers migrate from subsistence to commercial farming.

Agriculture also remains vulnerable to the effects of climate change with increasing temperatures affecting more temperate crops and the low predictability of rainfall patterns and amounts remains a challenge to smallholder farmers. Conditions for added value to agricultural exports remain a challenge, which has resulted in a large share of produce being exported in its raw form with minimal value addition.

4.2 Petroleum

In 2006, large deposits of crude oil were found in Uganda's Albertine graben. The most recent data from the exploration indicates that about 3.5 billion barrels of crude oil have so far been confirmed with possibilities of finding more oil at other exploration sites. Since this discovery, the parliament has passed the National Oil and Gas Policy and licenses have been awarded to Total E&P, CNOOC and Tullow Oil.

In early 2017, Tullow Oil farmed down their stake in Uganda's oil reserves and remained with a nominal interest in the sector. Despite this, challenges remained between the Ugandan government and the oil companies over taxation arrears, which has since been resolved. Final Investment Decision is now expected from the oil companies in mid-2020 with commercial production extended to 2023 approximately.

A consortium of American and Italian companies has been chosen to construct the national Oil refinery worth USD 4.2 billion in Hoima, Western Uganda. Construction is expected to commence in 2022 earliest. Additionally, the heated pipeline to deliver Uganda's oil to the coast in Tanzania is expected to be 1400 km long with a thickness of 25 inches. The EPC contractors for the pipeline are yet to be determined. Commercial oil production is expected to start in 2023 after considerable delays.

4.3 Transport and Urban Development

Uganda's national budget over the last 10 years has focused on the area of infrastructure especially regarding the transport networks around the country. Many new roads have been constructed with greenfield and projects in the railway sector being commissioned. The country's only international airport is currently under renovation with the revival of its water transport planned for the not too distant future.

Despite the heavy investment in transport infrastructure, the quality of the work can be called into question with roads, bridges and hydropower dams that are less than 18 months old developing serious wear and tear. There is also a need for Uganda to focus on improving its urban transport networks especially for commuters into the capital city.

The Kampala municipality is currently in the process of looking for investors to manage the city's waste. Currently, waste is being disposed of in landfills with little to no recycling. Swedish companies such as Sweco and Scania have been interested in providing a solution that will also create clean energy for the city, but challenges still remain in the areas of investment and by the municipality.

4.4 ICT

Uganda's ICT infrastructure has been prioritized by the government and private sector. The presence of many service providers in the ICT sector have brought the costs of accessing the internet down, however Uganda's internet is still considered to be the most expensive in the region. Fibre optic cables have been laid around Kampala but the business community is yet to see the full benefit of this initiative. The main challenges facing the sector include high government taxes and a costly and inadequate supply of energy to the sector. Internet penetration in Uganda currently stands at 42%, with Kenya at 83%, Tanzania at 38% and Rwanda at 30%.

4.5 Energy

Since the commissioning of the Isimba Hydropower project in March 2019, the country has seen a total of 180 MW of energy added to the national grid. This however has not helped to reduce the high costs of energy. Currently Uganda's generation capacity stands at over 950 MW. However, consumption of the energy produced remains relatively low with less than 30 percent of rural households able to access energy from the national grid. At the moment only 450 MW are being consumed and this is mostly at household level. The government is still working to ensure the supply of energy is sufficient for the country by building another hydropower plant at Karuma (700 MW) and other smaller dams countrywide. Transmission and last mile connections are envisaged to be a challenge as the pace of Uganda's generation capacity out strips the construction of transmission lines and connections to consumers. President Museveni has recently prioritized transmission of power through grid extension as one of the few sectors that the Government of Uganda is willing to acquire external debt for.

4.6 Health and Education

Uganda's National Budget has over the years failed to increase its funding to the health and education sectors to keep up with the needs of the growing population. There has therefore been a heavy reliance on donor aid and assistance to finance its priorities in the health sector with USAID, for example, financing up to 90 percent of Uganda's HIV and AIDS response. Since the liberalization of the economy in the 80's, Uganda's health and education sectors have increasingly been supported by private sector investments since the government owned and run facilities are lacking in many areas (lack of medicines, medical equipment, desks, scholastic materials, short staffed etc.).

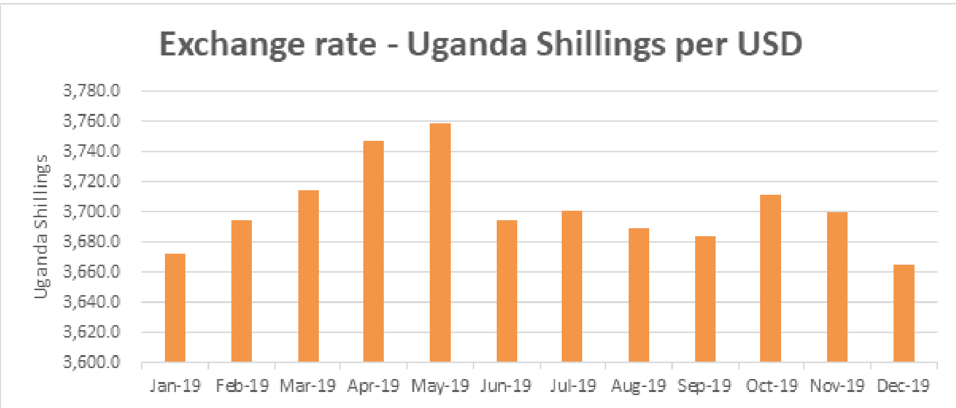
Private investments in health and education have been seen to do well around the urban centers where people can afford the services; however, this has become a challenge to most Ugandans in rural areas who are living below the poverty line.

5.0 Exchange Rates

From January 2019 to December 2019, the Uganda Shilling first lost then regained its value against the United States Dollar. The average exchange rate for the year 2019 was Ushs 3703 while the average exchange rate for the year 2018 was Ushs 3707. This shows that the shilling has remained stable over the last 2 years which shows a positive trend for businesses involved in international trade.

The demand for the dollar has increased over the years due to the number of foreign investors that make dividend payouts outside Uganda together with Uganda's dependence on the importation of petroleum products, among others. This has previously disadvantaged the Uganda shilling, however, this has not impacted the fluctuations in the year 2019.

The year 2021 being an election year, it is expected that investments into the country shall reduce with many businesses waiting for the outcome of the election. This may negatively impact the value and demand for the Uganda shilling.

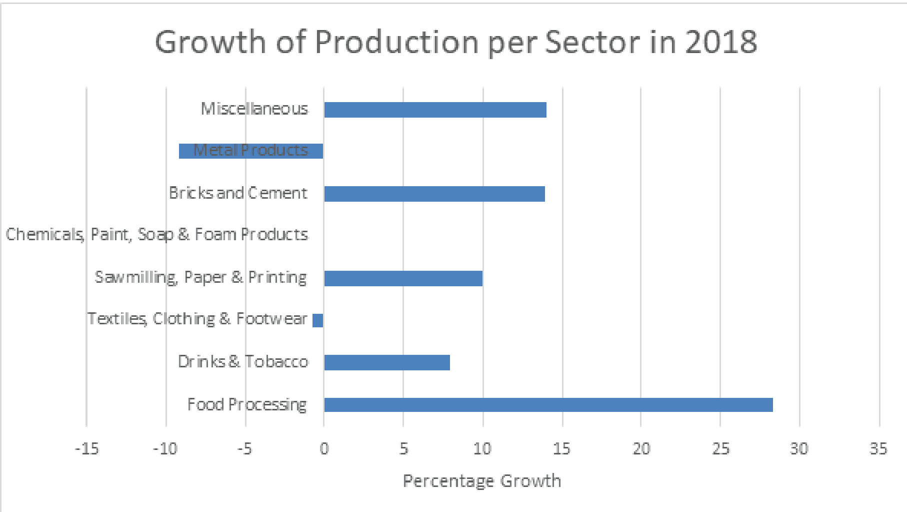


Source: Bank of Uganda; Key macroeconomic indicators, December 2019

6.0 Industry and Services Sectors

The trade and industry sector is mainly comprised by the manufacturing sector, wholesale and retail trade, hotels and restaurants and other business services including the import and export sectors. As the Ugandan economy matures, services have been seen to increasingly contribute more to the GDP of the country. The manufacturing sector, however, mostly relies on the success of the agricultural sector. Approximately 39 percent of factories and processing plants source their raw materials from agricultural produce with up to 90 percent of these industries being SMEs.

These industries include food processing plants, drinks manufacturing, tea and tobacco processing and textiles manufacturing among others. Within the sector, food processing makes up 40 percent of all manufacturing; drinks and tobacco 20 percent; chemicals, paint, soap and foam products 9.7 percent.



Source: Uganda Bureau of Statistics, Statistical Abstract 2020

The chart above shows the growth of production in Uganda by sector. The Manufacturing index increased by 13,3 percent in the year 2018 due to high growth in the food processing sector (due to a 64 percent increase in the volume of sugar production), and an increase in the volume of bricks and cement being produced (due to an increase in the volume of cement and lime production). The textiles sector registered a decline of -0,8 percent over the same period as well.

The service sector is largely dominated by the Tourism sector through hotels and restaurants and the financial sector through the various banks operating in Uganda. This subsector has maintained high growth levels due to the increasing tourist inflows into the country and a growing national economy.

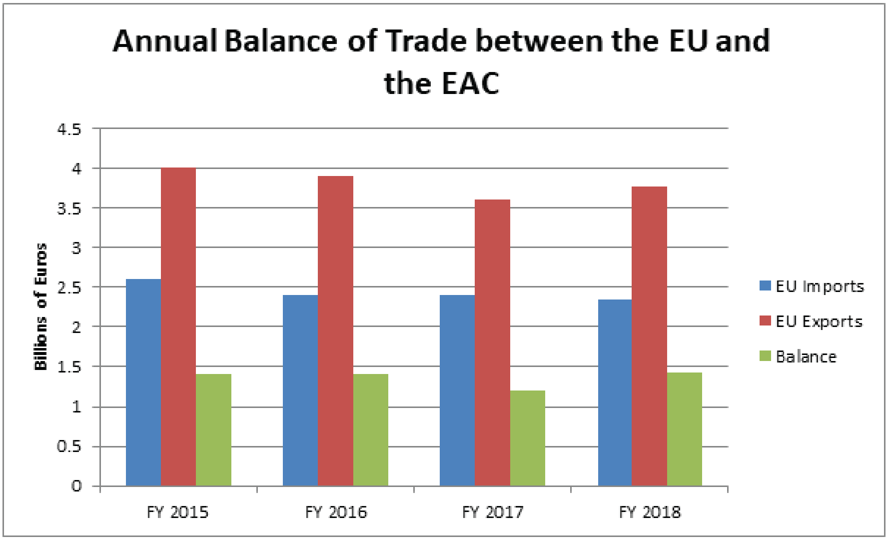
7.0 Trade Agreements between the EU and the EAC

The East African Community, which includes Uganda, finalised the negotiations for an Economic Partnership Agreement (EPA) with the EU on 16 October 2014. Kenya and Rwanda signed the EPA in September 2016, and Kenya has ratified it. For the EPA to enter into force, the three remaining EAC members need to sign and ratify the agreement. The European Commission submitted a proposal for conclusion, signature and provisional application of the full EPA with the East African Community to the Council in February 2016. Tanzania maintains its stand that the agreement will have serious consequences on its revenues and the growth of its industries.

The EU-EAC EPA covers trade in goods and development cooperation. It also contains a chapter on fisheries, mainly to reinforce cooperation on the sustainable use of resources. The agreement provides for further negotiations on services and trade-related rules in the future. The deal is in line with the EAC Common External Tariff. It bans unjustified or discriminatory restrictions on imports and exports. This helps the EAC's efforts to get rid of non-tariff barriers in intra-EAC trade.

7.1 Trade between the EU and the EAC

Exports to the EU from East African Community are mainly coffee, cut flowers, tea, tobacco, fish and vegetables. Coffee has maintained high growth in exports due to efforts by government to boost forex reserves through coffee exports. Imports from the EU into the region are dominated by machinery and mechanical appliances, equipment and parts, vehicles and pharmaceutical products.



Source: European Commission Website (EU Trade in Goods with the ACP)

8.0 Uganda's Membership in Regional Trading blocs and the WTO

Uganda is a member of several trading blocs including the East African Community (EAC), Common Market for East and Southern Africa (COMESA) and Intergovernmental Authority on Development (IGAD). It is also a signatory to the World Trade Organization and participates in various trade negotiations as part of the various trading blocs and bilaterally. Uganda's continued support and involvement in regional integration is strengthening her involvement in the world trade regime.

Uganda signed the COMESA Free Trade Area (FTA) agreement in the end of 2012. The FTA specified that an import duty of 6 percent should be charged for (most) goods between fellow COMESA partner states. As part of the EAC, Uganda is also enjoying market access into the EU based on the initiated FEBA of 2008. Uganda has not yet signed and ratified the EPAs with the EU due to reservations that were raised within the EAC, mostly by Tanzania. There are ongoing discussions to see if the current countries within the EAC that have signed the EPAs can benefit from them accordingly using the principles of variable geometry, but this is yet to be agreed by all the partner states.

Despite being a full member of the EAC, Uganda has had some tariff and non-tariff barriers imposed on it by neighbouring Kenya especially on goods such as sugar, and, more recently, milk. Due to some recent political disagreements between Uganda and Rwanda, their border post at Katuna was closed in early 2019 and remains closed to date (February 2020). It remains to be seen whether the dispute shall end sooner rather than later.

The African Continental Free Trade Area agreement was brokered by the African Union (AU) and was signed on by 44 of its 55 member states in Rwanda in March 2018. The agreement requires members to remove tariffs from 90 percent of goods, allowing free access to commodities, goods, and services across the continent, which is expected to boost intra-African trade by 52 percent by the year 2022. After Gambia became the 22nd Country to ratify the agreement, it came into force in July 2019. Uganda ratified the ACFTA in November 2018.

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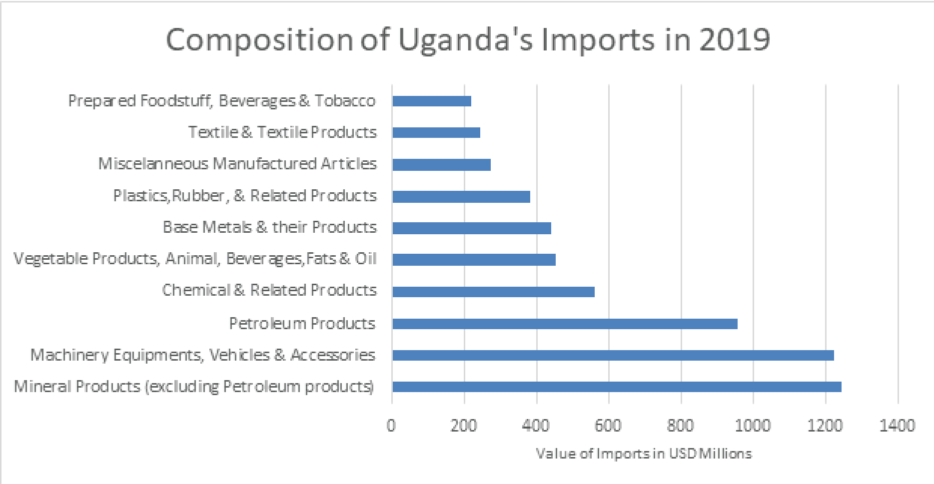
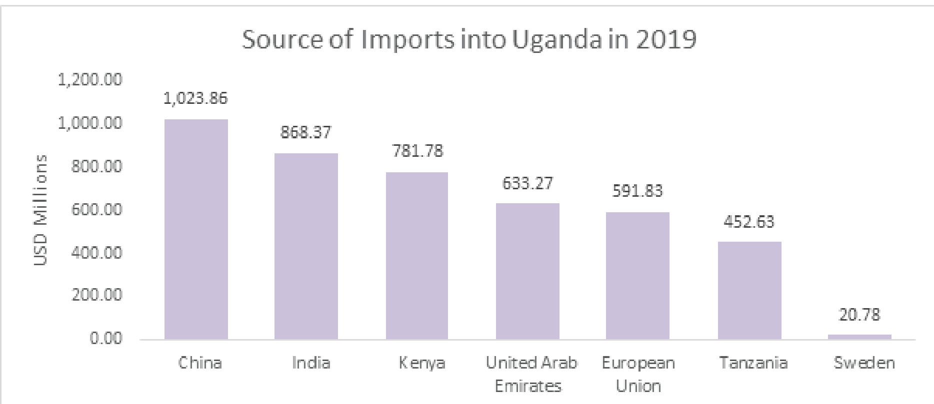
9.0 Uganda's Trade Statistics

9.1 Imports



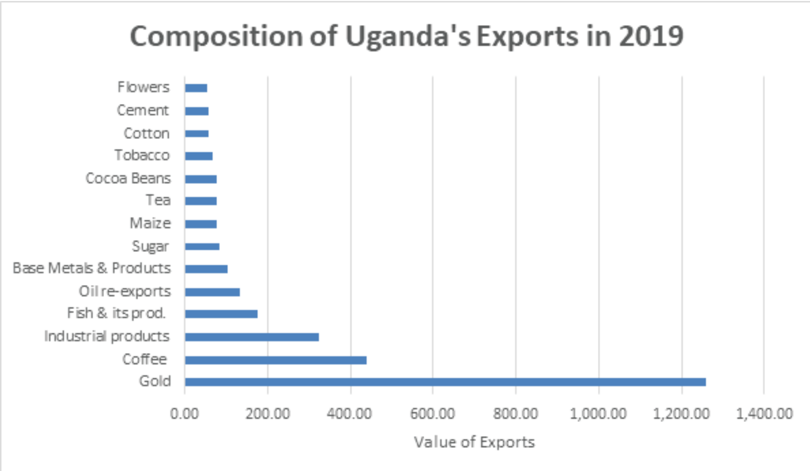
Source: Bank of Uganda Statistics

Uganda as a country heavily relies on imported products and raw materials. In 2019, Uganda's biggest import in terms of value was Mineral Products (USD 1.25 billion) followed by Machinery and vehicles (US$ 1.22 billion), Petroleum products (US$ 957 million), Chemicals and related products (US$ 560 million), Animal and vegetable products (US$ 452 million) and Base metals (US$ 439 million) to mention but a few. Uganda's imports mainly come from China, India, Kenya, United Arab Emirates, and the EU. The EU exported USD 591 million worth of products to Uganda with Sweden accounting for USD 20,7 million.



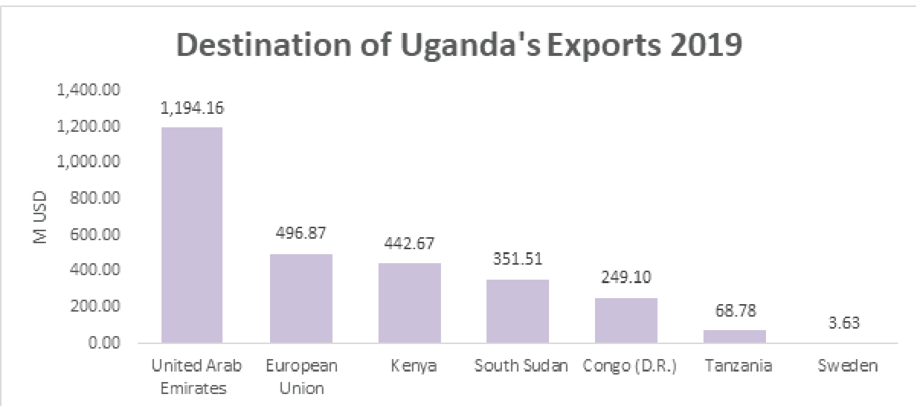
Source: Bank of Uganda Statistics 2019

9.2 Exports



Source: Bank of Uganda Statistics

Uganda as a country mainly exports agricultural commodities. Of recent, Gold has become Uganda's biggest export with a value of over USD 1 200 million. This seems to be increasing exponentially over the years. The second biggest export as a country in the 2019 CY remains coffee which amounted to over 438 million USD in foreign revenue followed by industrial products at 322 million USD. Uganda's major export partners include UAE, EU, Kenya, South Sudan, the Democratic Republic of Congo and Tanzania. The EU accounts for 497 million USD with Sweden at USD 3,6 million.

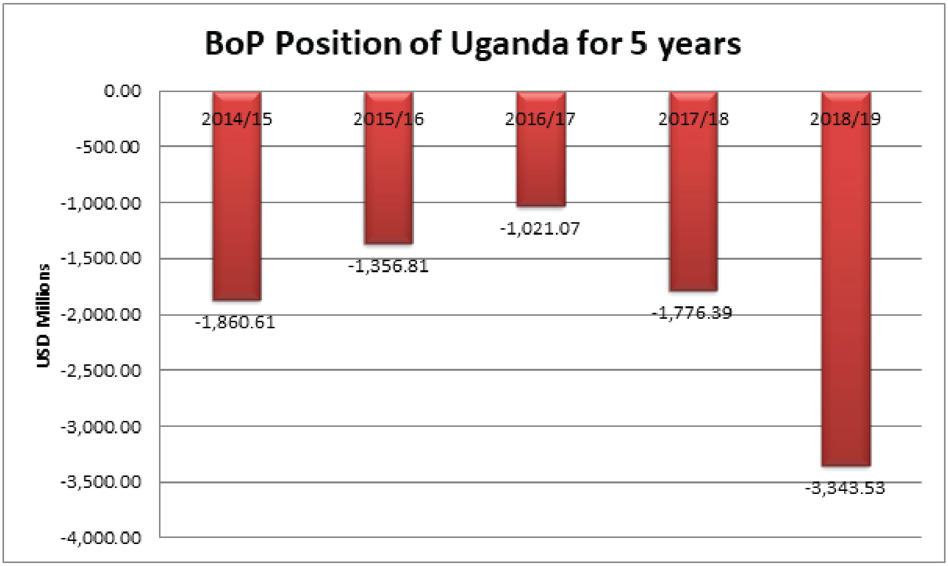


Source: Bank of Uganda Statistics

9.3 Balance of Payments

Uganda's balance of payments (BOP) position is relatively weak following the countries over dependence on agricultural produce (without value addition) as a main foreign exchange earner for the country. The trend of the BOP shown in the chart below shows that Uganda's BOP position is still negative, and is worsening over time, especially since the FY 2016/17.

Uganda's BOP position is expected to improve and become positive after 2023, when commercial oil production is expected to commence. In the short term however, it is expected to remain negative due to increased imports, slow growth in exports and reduced remittances. In addition, net donor inflows are expected to decline.



Source: Bank of Uganda Statistics 2019

10.0 Trade with Sweden

Uganda has already been importing several key products from Sweden. These products include Capital goods; Intermediate goods; Machinery and Electronics; Wood products; Vehicles; Plastics; and other fast-moving consumer goods among others. Key priority Swedish products for the Ugandan market include health related equipment and products, including but not limited to pharmaceuticals, equipment for ORs/cancer treatment and medical sundries. Swedish companies have also shown a strong interest regarding the technologies around renewable energy and clean cooking. Waste to energy technologies, where Sweden has a lot of experience, are currently being sought in Uganda. Transport and vehicles remain on high demand as Sweden supplies cars, trucks and buses to Uganda from its automotive manufacturers like Volvo and Scania.

Uganda being fundamentally an agricultural economy has the potential to supply Sweden with coffee and horticultural produce. Ugandan flowers enter the EU through the Netherlands and are redistributed to Sweden.

Below is a list of Uganda's imports from Sweden and exports to Sweden in the years 2018 and 2019 (up to September). It can be noted that in 2018, Uganda had a trade surplus with Sweden due to the increased importation of coffee from Uganda into Sweden.

	Item	CY 2018 (in millions of SEK)	CY 2019 (in millions of SEK)	%age 2018	%age 2019
	EXPORTS FROM SWEDEN TO UGANDA				
1	Telecommunications Equipment and parts	5,5	7,6	6,3	9,1
2	Heating and Cooling Equipment and parts thereof	3,2	0,0	3,7	0,0
3	Malt, whether or not roasted (including malt flour)	12	13	19	15
4	Cereal Preparations	12	13	19	15
5	Paper and Paperboard	8,1	18	15	21
6	Chemicals and related products	11	29	17	35
7	Diagnostic or Laboratory reagents on a backing…	6,2	27	11	32
8	Automatic Data Processing Equipment	6,3	2,9	8,1	3,5
	EXPORTS FROM UGANDA TO SWEDEN				
1	Coffee	96	53	96	94
2	Manufactured products	1,5	0.2	1,3	0.3

Source: Kommerskollegium – National Board of Trade Sweden
(http://statistikblad.kommers.se/en/?code=UG&period=201712&type=html)

11.0 Tariff and Non-Tariff Barriers to Trade and Investment in Uganda

11.1 Tariff Barriers

There are both tariff barriers and non-tariff restrictions to trade with Uganda. EAC member states are charged an import duty of 0 percent (sensitive goods not withstanding) while COMESA members are charged 6 percent, as compared to the rest of the world which is charged a 25 percent import duty for a majority of products. Swedish exports are therefore charged full import duties by Uganda and the EAC, which effectively reduces the competitiveness of Swedish products. This challenge may be remedied somewhat after Uganda and the EAC sign and ratify the Economic Partnership Agreement.

11.2 Non-Tariff Barriers for Trade and Investment in Uganda

Non-Tariff barriers remain a major constraint for Swedish businesses that are interested in investing and trading with Uganda. These challenges have been brought to the attention of the Embassy on various occasions, some without resolve even after several months. These can be highlighted as follows:

a) Corruption:

Corruption in Uganda remains a significant challenge for businesses operating in the country. The vice has been found to be commonplace especially within government offices, but has also found its way to private sector transactions. The Swedish government and Swedish companies have a “zero-tolerance to corruption” policy within their organizations, however, this has become a disadvantage in Uganda. Corruption increases the value of contracts due to the hidden costs involved. It also forces companies to compromise on the quality of output, which eventually leads to breach of contract and other associated challenges. Transparency International’s 2019 Corruption Perceptions Index ranks Uganda 137th out of 180 countries and territories, with a score of 28 out of 100 (up from 26/100), indicating a perception of widespread and endemic corruption. Low pay within the justice, law and order sector facilitates corruption and provides a challenge especially for businesses seeking redress.

The embassy has been approached by companies to complain about this challenge especially in securing contracts to supply equipment to government institutions and in the application for work permits by Swedish nationals.

b) Bureaucracy and Red Tape:

Swedish companies have recognized the high levels of red tape within Ugandan government institutions. A simple process like the registration of a foreign company or the application for a license sometimes can take up to months before the process is completed. Redundant requirements are limiting processes in the country.

c) Company and Market Information:

The credibility of both Swedish companies and Ugandan companies has been called into question and is a barrier for trade and investment. Due to the difficulty in conducting effective background checks on Swedish companies, Ugandan companies and government agencies find it difficult to trade or do business with their counterparts in Sweden. Similarly, Swedish companies wishing to trade with Ugandan companies often find it difficult to ascertain the credibility of Ugandan companies. This challenge is mostly experienced when doing business with small and medium sized enterprises.

d) Licensing Regime:

The licensing regime for awarding licenses to companies who are willing to operate in Uganda’s free zones has proven to be challenging for businesses. The Uganda Free Zones Authority (UFZA) has been issuing licenses of the duration of 1 year to companies who set up in the free zones. Considering the average capex of investments in the free zones is normally quite large, short term licenses have been proven to be an impediment, as the government has the power to revoke your license after 1 year of operations, when most companies have not started making profit yet.

The position of Swedish companies has been to lobby for a longer licensing period for investors. Currently, the UFZA has confirmed that they have requested an amendment to the law to allow for this and it should be rectified in the near future.

e) Cost of contracts:
The Ugandan market and Ugandans at large are considered to be very price sensitive in terms of consumption. When considering contracts, the Ugandan government and businesses have been seen to rate price as the most important factor when deciding on contracts. Unfortunately, this has led to companies under-quoting in their submissions, a challenge that can only be mitigated by compromising on quality.

Due to this challenge, Swedish companies whose focus is on quality and durability, which inadvertently reduces the life cycle costs of the products in question, are often disregarded due to their higher prices. Most products from Sweden have been outcompeted by their low-cost alternatives from companies who do not consider issues such as quality and the environmental effects of their products.

This challenge has been realized by Ugandan government MDAs and mindsets are changing, albeit slowly. Swedish companies have therefore positioned themselves as better quality and durable alternatives, a niche whose market is growing.

f) Credit lines to the government:
Most of the largest Ugandan government contracts and tenders are given to companies that have access to credit lines for the government. Due to budgetary constraints, the government provides contracts to companies that can provide credit with single digit interest rates. This has been maximized by companies who have been given green lights by their governments to enter into such agreements. Unfortunately, Swedish companies who may not have access to such facilities are therefore disregarded from the get-go.

This is now changing in the energy sector, as advanced discussions for the first project financed by EKN are about to be concluded (as of February 2020). We hope that this opens the door to more Swedish ECA financing and therefore more opportunities for Swedish companies.

g) Volatility of exchange rates:
The Ugandan shilling has been steadily depreciating over the last 10 years. The country's balance of payments position and repatriation of profits by large multi nationals has contributed to the steady decline of the currency over the years. This volatility of the currency poses a risk for international trade as this therefore can lead to significant loss in value of commodities over time. In order to mitigate this, international companies prefer to use the US dollar as a medium of exchange. This has, however, made the products more expensive to the local Ugandan companies, which cost is transferred to the consumer. This therefore makes foreign products even less attractive on the Ugandan market as the price difference discourages consumers and inadvertently reduces the market for goods from abroad.

Swedish companies have faced this challenge, especially suppliers of fast-moving consumer goods whose competition is much higher than capital goods. This has therefore discouraged smaller companies from entering the Ugandan market.

h) Delay in government payments
Government contracts in Uganda are seen to be very lucrative by international companies due to the level of certainty that companies can attach to the government's processes and procedures. These contracts also tend to be bigger in value as compared to private contracts. Despite the appearances, it has been proven that the Ugandan government takes a lot of time to pay its suppliers. It is not uncommon to find companies waiting for up to a year or even longer before payments can be disbursed. This is a challenge for Swedish companies who are looking to supply the Ugandan government. Companies without a significant cash flow are therefore at risk in this scenario.

12.0 Opportunities

Uganda has an attractive investment climate with the country being ranked as the 8th most free economy in sub-Saharan Africa by the 2019 Index of Economic Freedom. It has opened up to allow 100 percent foreign ownership of investments; this coupled with the free inflow and outflow of capital into the country makes Uganda a good place for foreign investment.

Uganda has a competitive real exchange rate that supports economic growth and is a signatory to several international investment and trade related institutions and bodies. Uganda provides a market of over 38 million people and an additional 100 million people through the East African Community Customs Union and Common Market. Uganda is also a part of the COMESA Free Trade Area which provides a market of over 400 million people across 19 countries.

There is a high availability of trainable labor as universities in the country produce over 15,000 graduates per year.

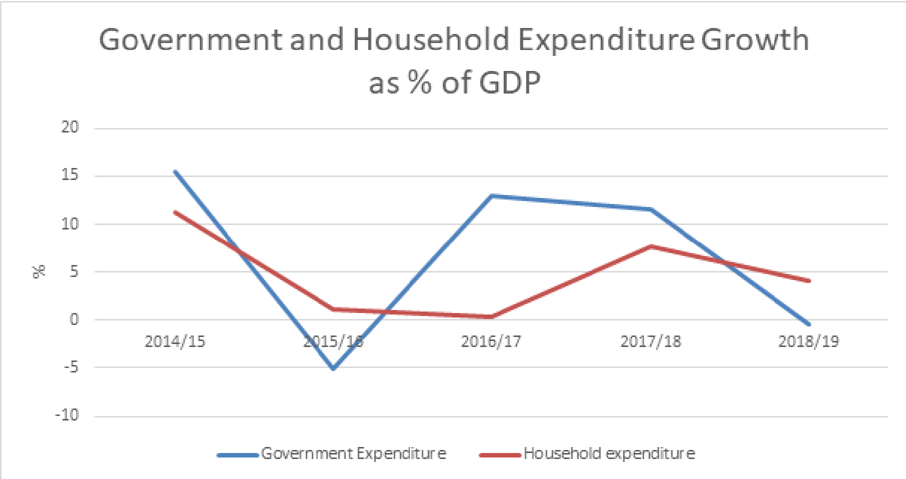
The Ugandan government supports foreign investors through the establishment of several incentives for FDI into Uganda. Sectors like Agriculture, Tourism, Health, Education, Renewable energy and Mining have been given tax exemptions for the importation of plant and machinery and investment capital allowances have also been given to various industries. The government has established a forum where the President can listen to the concerns of investors known as the Presidential-Investor Round Table (PIRT). The forum provides solutions as a directive from the President regarding issues faced by foreign investors in Uganda.

Swedish companies operating in Uganda have the opportunity to join several business associations that advocate for a better trade and investment climate. The Nordic business community set up the Nordic Business Association (NBA) which comprises of over 50 Nordic businesses in Uganda. Quarterly meetings are held to discuss several topics of interest with speakers from various government agencies advocating for businesses invited to interact with its members. The Swedish-Uganda Business Association (SUBA) has also been created to facilitate networking between businesses with an affiliation to Sweden. On top of these, associations like the Uganda National Chamber of Commerce and Industry (UNCCI) and the Private Sector Foundation Uganda (PSFU) are powerful business lobby groups that advocate for a better business climate for all the businesses in Uganda.

Swedish companies can also be assisted to export into the East African region through the agency Business Sweden, which is based in Nairobi-Kenya for the East African region. Business Sweden actively provides business linkages with East African companies and has brought various sector-focused delegations to Uganda for promotion of Sweden's private sector. The EU delegation is also in the process of forming the SB4U platform for companies for the EU to assist them in doing business in Uganda.

Opportunities can be derived from a variety of sectors in Uganda. Various sectors have the potential to expand exponentially and create opportunities for both foreign investment and trade in the medium term. Potential can be measured through the current sector growth trends, which investors and businesses can use to forecast areas of opportunity. Below, we have highlighted some of the key sectors which have growth potential and through which investment and trade are expected to increase in the short term.

12.1 Government and Household Expenditure Growth



Source: Uganda Statistical Abstract 2020, Uganda Bureau of Statistics

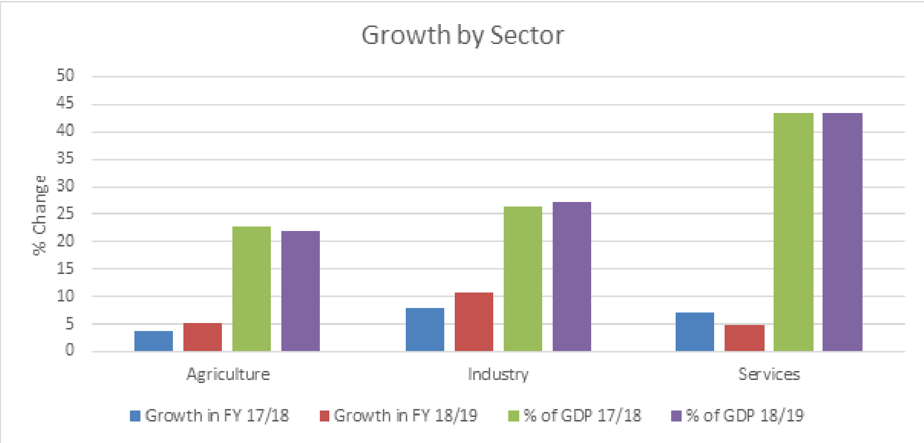
In Uganda, the biggest purchaser of goods and services is the government. Over the years, the national budget for the country has increased phenomenally with the national budget in 2013 amounting to a total of USD 4 billion which has more than doubled over a 5-year period to USD 11 billion in 2019. It can be noted, however, that the biggest bulk of the budget in the recent 2019/20 FY has gone to servicing both domestic and international debt (approximately 34 percent).

Despite the increase in spending by the Uganda government, the total government expenditure has increased at a slower pace. Growth in government consumption expenditure has been seen to come from a decline of -5,1 percent in the 2015-16 financial year to a positive growth of 12 percent in 2016-17 to a decline of -0,4 percent in 2018/19, while there has been an increase in the national budget of over 70 percent in the same period. The negative growth in 2018/19 can be attributed to the increase in the countries debt servicing as opposed to consumption expenditure.

The growth of household consumption expenditure has been positive with a reduction in expenditure only occurring more recently in 2016/17. The decline in household consumption expenditure in 2016 can be attributed to the drought in 2016/17 that led to an increase in food prices.

Taking these statistics into account, there is a larger opportunity for companies to supply the Ugandan government with products and services, especially considering the small size of Uganda's industry, with most products that are manufactured in the country being based on the output from its agricultural sector. Household expenditure remains low in comparison, especially considering the annual per capita income of Ugandan's being approximately USD 878.

12.2 Sector Growth as Percentage of GDP



Source: Uganda Statistical Abstract 2020, Uganda Bureau of Statistics

Uganda's economy is heavily reliant on its agricultural outputs for both consumption and export. Both the industry and services sectors are therefore heavily reliant on agriculture and its outputs to grow. It can therefore be noted that a growth in agriculture has positive repercussions throughout the economy and vice versa.

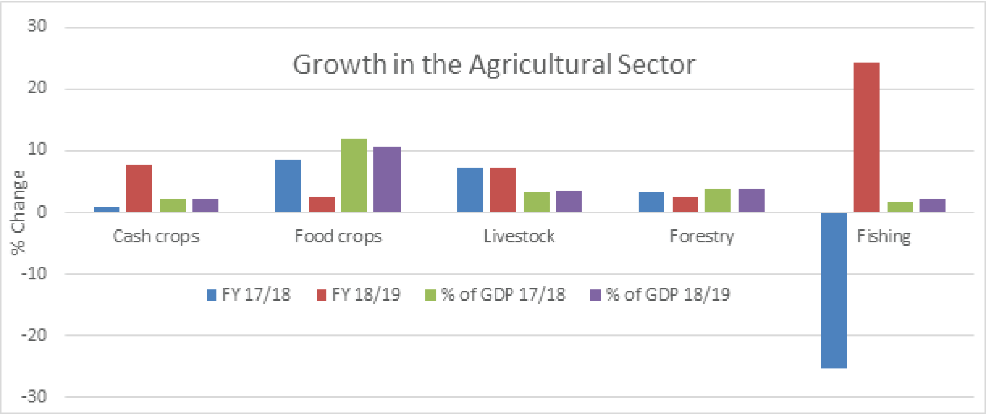
The growth of the agricultural sector has been seen to increase between the FY 2017/18 and 2018/19 from 3,8 percent to 5 percent respectively. This increment can be attributed to the better rains received in 2018 and 2019 as compared to the drought experienced in the previous period which affected the production of food crops mostly. Despite this, the contribution of agriculture to Uganda's GDP remains stable at approximately 22 percent. As a major exporter of coffee, tea and fish, the agricultural sector is expected to remain robust.

Similar to the agricultural sector, Uganda's industry sector has been seen to have experienced an increment in growth of almost 3 percent between FY 2017/18 and 2018/19. This can also be attributed to the timely rainfall received in 2018 and 2019 in the country which improved yields and output from the agricultural sector which are the main inputs for industries in Uganda. The industry sector maintained its contribution to GDP of approximately 27 percent.

The services sector, which has been seen to overtake the agricultural and industry sectors over the last decade lost some of its strong growth since 2018. Growth came down from 7 percent to 4,9 percent in this period with its contribution to GDP remaining at approximately 43 percent. This could be attributed to changes in fiscal policy regarding mobile money and other tax additions to the 2018 budget year among other things.

Opportunities for the private sector can be seen across the board, however, the strength of the services sector shows that services remain a core area of growth and stability within Uganda's economy.

12.3 Growth in the Agricultural Sector



Source: Uganda Statistical Abstract 2020, Uganda Bureau of Statistics

Uganda's agricultural sector can be broken down into the production of cash crops, food crops, livestock and its products, forestry and fishing. These sectors collectively represent the bulk of Uganda's outputs and exports. Cash crops include commodities such as coffee, tea, tobacco and sugar among others. Food crops are mainly cereals such as maize and rice and tubers including potatoes, cassava among others. Livestock includes the beef and dairy sector, poultry rearing and egg collection, and the rearing of goats and pigs among others.

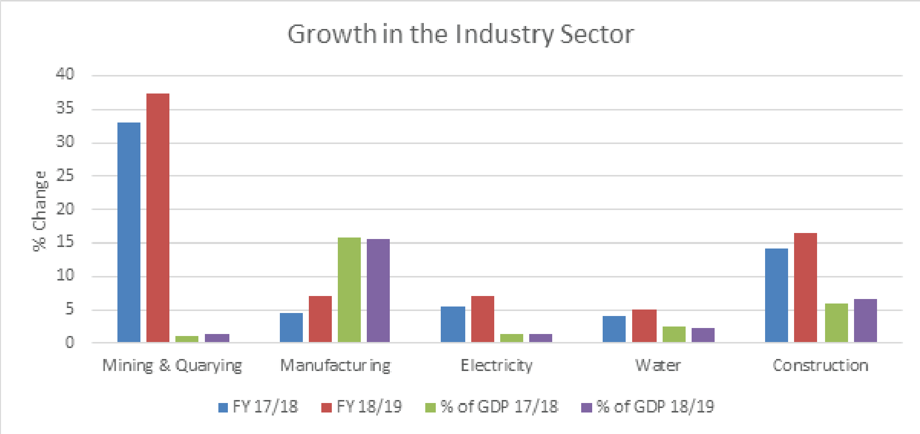
Uganda's main exports include coffee, tea, cocoa, fish and cotton. There has been a boom in the export of coffee in the recent years, which has led to an increase in the countries forex earnings and has placed agriculture at the forefront of the governments agenda for increasing exports. Due to this, during the period of 2018-2019, cash crops have been seen to grow significantly from a growth of 0,8 percent to 7,7 percent. This can be attributed to the adequate rainfall and climatic conditions experienced in the country's coffee growing areas.

The contribution of the production of food crops to the country's GDP has declined over the same period by 2 percent. Currently standing at almost 10,5 percent, the production of food crops in country is still significant with increased exports of cereals such as maize to the Kenya, maintaining Uganda's position as the food basket for the East African region.

The production of livestock in Uganda and its products (milk and eggs) has been seen to remain stable over the same period. The same can be said for Uganda's forestry outputs as well. Fisheries, once Uganda's largest export, has also been seen to come from a decline of -25,2 percent to 24 percent, as government and development partners support the creation of commercial fish farms as opposed to overfishing Uganda's lakes and rivers.

Strong opportunity remains in the country's agricultural sector, especially in providing technologies for maximization of output through value addition. Agriculture remains as the backbone of Uganda's economy for the foreseeable future with a myriad of opportunities across its subsectors, especially in cash crop production.

12.4 Growth in the Industry Sector



Source: Uganda Statistical Abstract 2020, Uganda Bureau of Statistics

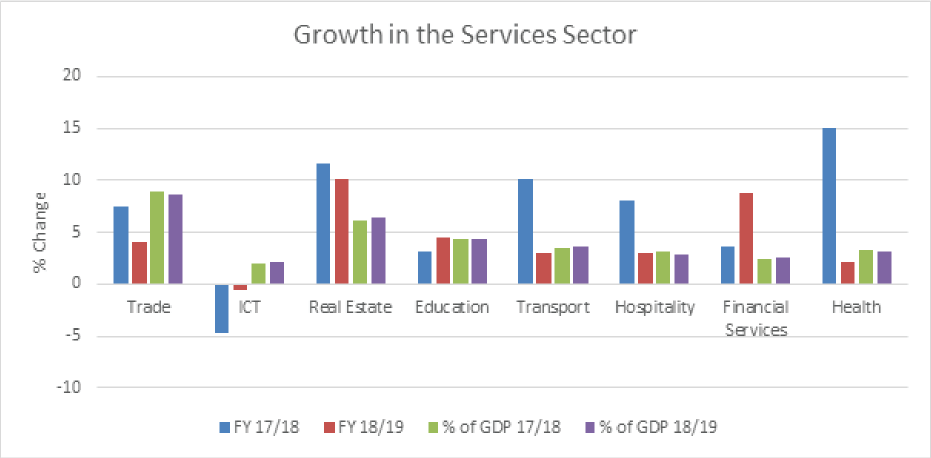
The industry sector in Uganda is categorized into mining and quarrying, manufacturing, production of electricity, water supply and the construction subsectors. Uganda's industrial sector remains small as compared to that of Kenya and Tanzania, however, it continues to grow despite challenges of high energy costs and high costs of inputs considering Uganda's landlocked nature. Manufacturing and construction have remained the most stable subsectors of industry contributing to 15,5 percent and 6,5 percent respectively of Uganda's GDP in the 2018/19 financial year.

The mining and quarrying sector remains quite volatile with high growth rates of 37 percent but low contribution to GDP of 1,4 percent in the FY 2018/19. This can be attributed to the growth of Uganda's nascent oil and gas sector mostly. Mining being quite capital intensive and speculative in nature only shows positive results upon the discovery of significant resources. Uganda's mineral sector however is dominated by artisan miners whose capacity is minimal and operations informal. This has led to a volatile sector with gains expected upon commercialization of the country's petroleum resources.

Provision of utilities such as electricity and water have been seen to remain stable over the years 2018 and 2019 with adequate growth rates of 7 and 5 percent respectively. This is mainly due to the government's prioritization of the construction of both larger and smaller hydro-power dams. This has been seen to grow over time and is expected to continue growing into the medium term.

Opportunities in industry remain numerous especially considering the small size of the sector with an increasing demand for its outputs. There has been a growing trend to service remote areas with mini grids as a source for their energy needs with a focus on renewable energy options such as solar power and clean cooking options. The manufacturing of smaller components to be supplied to larger industries is also on the rise and provides an opportunity for investment. The supply of capital goods and machinery for small scale production remain as key opportunities for trading within the sector.

12.5 Growth in the Services Sector



Source: Uganda Statistical Abstract 2020, Uganda Bureau of Statistics

The services sector as the largest contributor to Uganda's GDP providing for almost half of Uganda's GDP (43%) remains as the strongest sector for investment and trade with varying opportunities. These include the supply of products for wholesale and retail markets, ICT services and components, letting of premises for retail and residential use, provision of education facilities and e-learning platforms, provision of restaurants and accommodation facilities for tourism and supplying the health sector among others.

The Trade and Real estate subsectors experienced strong growth over the financial years 2017/18 and 2018/19, however, the ICT sector experienced negative growth over the same period due to a decline in audio-visual, broadcasting, publishing and computer programming services.

The country's trade sector remains as major contributor to Uganda's GDP with trade accounting for almost 9 percent of its GDP. The real estate sector continues to grow with activities surrounding owning or leasing property growing at almost 11% in the FY 2018/19.

After the liberalization of the economy, sectors such as health and education (which were previously seen as core sectors for government intervention and expenditure) were opened up to the private sector for development. These sectors have been left primarily for private sector investment, which therefore provide an opportunity for both trade and investment.

Similarly, sectors such as transport have been left to the market forces of demand and supply, with municipalities and local governments being seen to enter public-private partnership (PPP) arrangements with private sector companies to supply the services required. The signing into law of the PPP act has provided an opportunity for companies to invest in the sectors of education, transport/infrastructure, health and ICT.

13.0 Conclusion

Sweden and Uganda have historically shared good and strong diplomatic relations, especially regarding Sweden's development cooperation support to Uganda. Despite this, however, the business relationship between the two countries has been kept at a low level. A number of factors can be attributed to the low intake of Swedish products on the Ugandan market as have already been highlighted above.

The rapid development of Uganda's infrastructure provides an opportunity for Swedish companies to actively contribute to Uganda's economy. Projects such as Kampala's waste to energy focus and the increased investment by government in rolling out energy to previously unconnected Ugandans are low hanging fruits that can cement the growing business relationship between Sweden and Uganda. With the reception of several delegations from Sweden's health and renewable energy sectors, Ugandan businesses are increasingly looking to Sweden for high quality equipment.

Sweden as a member of the European Union provides a significant market. The potential is expected to increase especially after the signing and ratification of the EU-EAC EPA. Sweden and Swedish products and contractors are looked upon favorably by the first family and members of Uganda's cabinet, a strength that Sweden needs to capitalize on to push for more business between the two countries.

Despite the challenges, a decent amount of trade and business still thrives between Uganda and Sweden. This can be strengthened further by focusing on niche areas where opportunities have already been identified and Sweden's strengths can clearly put it ahead of Uganda's traditional trading partners.

Credit: Per Pixel Petersson/imagebank.sweden.se

APPENDIX: CONTACTS OF KEY MINISTRIES, AGENCIES AND OTHER ORGANIZATIONS

NAME	CONTACTS
EMBASSY OF SWEDEN	Plot 24 Lumumba Avenue P.O. Box 22669, Kampala. Tel: +256 417 700800 Email: ambassaden.kampala@gov.se
MINISTRY OF FOREIGN AFFAIRS – UGANDA	Plot 2A/B Apollo Kaggwa Road, P.O. Box 7048, Kampala. Tel: +256 414 345 661 Email: info@mofa.go.ug
MINISTRY OF TRADE, INDUSTRY AND COPERATIVES – UGANDA	3rd Floor Farmers House, Plot 6/8 Parliament Avenue, Kampala. Tel: +256 414 314 268/314 000 Email: mintrade@mtti.go.ug
MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT – UGANDA	Plot 2/12 Apollo Kaggwa Road, P.O. Box 8147, Kampala. Tel: +256 414 707 000 Email: finance@finance.go.ug
UGANDA INVESTMENT AUTHORITY	TWED Plaza Plot 22B Lumumba Avenue, P.O. Box 7418, Kampala. Tel: +256 414 301 000 E-mail: info@ugandainvest.go.ug
UGANDA EXPORT PROMOTION BOARD	2nd Floor, UEDCL Tower Plot 37, Nakasero Road P. O. Box 5045, Kampala. Tel: +256 414 230 250/233 Email: uepc@starcom.co.ug, helpdesk@ugandaexportsonline.com
UGANDA REVENUE AUTHORITY	Plot M 193/M 194, Nakawa Industrial Area, P.O. Box 7279, Kampala. Tel: 0800 117 000 Email: info@ura.go.ug
PRIVATE SECTOR FOUNDATION UGANDA	Plot 43 Nakasero Road, P.O. Box 7683, Kampala. Tel: +256 312 261 850/263 850 Email: psfu@psfuganda.org.ug
UGANDA NATIONAL CHAMBER OF COMMERCE AND INDUSTRY	Plot 1A Kiira Road, P.O.BOX 3809, Kampala. Tel: +256 414 503 024 Email: info@chamberuganda.com
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