Voluntary _ Public

Date: 9/3/2013

GAIN Report Number:

Uganda

Post: Nairobi

Market Opportunities for U.S. Food Products in the Ugandan Market

Report Categories:

Exporter Guide

Approved By:

Kate Snipes

Prepared By:

Brian Dutoi

Report Highlights:

Increasing incomes and a larger middle class in Uganda should lead to increased spending on a wider variety of food products. Companies expanding into the Ugandan market will benefit from importers who are established but entrepreneurial, as well as official processes and standards that are straightforward and consistent with Uganda's neighbors. Challenges include high freight costs and long transit times to the landlocked nation, and popular support for domestically produced food.

General Information:

Uganda's economic outlook is positive according to forecasts. Importers and food producers in the country expect this to lead to increased spending on a wider variety of food products, boosting consumer-oriented and intermediate imports. Access to the Ugandan market is facilitated by regional trade integration and importing companies that are established and diversified, while challenges to US exporters include high freight costs and long transit times.

Economic Situation

Ugandan GDP growth has been strong and is projected to increase in the coming years, though some recent growth potential has lost to inflation rate stabilization. The African Development Bank (AfDB) predicts that growth will recover to 4.9% in 2013 and 5.5% in 2014, while the Economist Intelligence Unit (EIU) expects modest 2013 growth expanding to 6.8% average over 2014-16 from foreign investment and demand. The EIU also projects that growth will expand further as oil production begins, to 12.5% in 2017.

According to the International Monetary Fund (IMF) and the AfDB, Uganda's inflation rate had stabilized by the end of 2012 through a combination of monetary policies and macro conditions. Inflation declined each month from October 2011 to October 2012, the last month for which the IMF reported data. The AfDB expects inflation to remain low in the near term, while the IMF states that continued stability is contingent on public sector discipline. The EIU predicts that commodity prices and fiscal policy will keep inflation to 6.7% in 2013-15, with a pre-election spike of 15.4% in 2016 before decreasing again.

Reasons to be optimistic about Uganda's economic and agricultural trade outlook include the aforementioned nascent oil sector and President Museveni's development plan. Three of its ten points are modernizing agriculture, expanding markets through regional integration, and adding value to exports. GDP per capita is low, but households spend 65% of their income on food. Uganda's challenges include recent high-level corruption cases that have prompted donors' to freeze $260m in assistance, leading to an austere 2013/2014 budget (EIU). Uganda's human development indicators are mixed (AfDB), while the World Bank (WB) reports it has one of the world's highest population growth rates.

Economic or Demographic Indicator	Value	Year	Source
Real GDP Growth Rate (%, 3 year average)	5.1	2010-12	CIA World Factbook
Total GDP (billions USD, official exchange rate)	20.5	2012	CIA World Factbook
GDP per capita (current USD, PPP is 1,352)	547	2012	World Bank WDI
Household Food Expenditure (avg % of income)	64.9	2012	UNDP Report
Population (millions)	34.8	2013	CIA World Factbook
Population Growth Rate (%)	3.32	2013	CIA World Factbook
Labor force (millions)	16.6	2012	CIA World Factbook
Unemployment (%)	4.2	2009	World Bank WDI
Inflation (%, consumer prices, 3 year average)	12.5	2010-12	CIA WF and WB WDI
Exchange Rate (UGX/USD, 3 year average)	2,398	2010-12	CIA World Factbook

Trade Situation

Uganda is a net importer of goods and services (WB), and the EIU projects that its significant current accounts balance will be maintained by demand for capital goods. Uganda's trade sector could change significantly with the development of an oil sector following recent discoveries. The country is a net exporter of agricultural goods (FAO, UNDP), with coffee accounting for the largest share of the country's agricultural export revenues (FAO). Other major exports include sugar, coffee, cocoa, beans, lentils, fruit concentrates such as pineapple.

A large portion of the manufactured products consumed in Uganda, including processed foods, are imported. India is a major importer, and the United Kingdom, South Africa, Dubai and China are common countries of origin for both intermediate and consumer-oriented goods. The US share of Uganda's agricultural imports fell each year between 2004 and 2010, except for 2006-2007 which was buoyed by a large one-year increase in imports of bulk goods. Agricultural imports from world increased yearly during the same period, except for 2008-2009 (see table).

Uganda is a member of two regional trade blocs, the five-country East African Community (EAC) and the larger Common Market for Eastern and Southern Africa (COMESA). Both are actively expanding tariff and regulatory integration. A WB report states that the country's best path to development is trade, especially in services, calling for trade expansion among African countries beyond its traditional partners. Ongoing integration should make trade with and within the region easier and more cost effective, through harmonized regulations, improved enforcement, and more reliable infrastructure, while preferential duties may harm the prospects of global competitors.

The financial and time costs of importing goods to Uganda from overseas are high. Almost all goods are shipped through the Port of Mombasa in Kenya and enter landlocked Uganda overland. More details about shipping can be found in Section II.

Imports of Agricultural Products	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
World Total (millions USD)[1]	366	396	476	629	542	583		
Yearly Increase/Decrease in World Total (%)[1,2]	+15.1	+8.2	+20.2	+32.1	–13.8	+7.6		
US Intermediate (millions USD)[3]	15.7	9.4	11.7	6.9	3.9	2.3	4.1	5.3
US Consumer Oriented (millions USD)[3]	0.07	0.03	1.1	2.0	0.9	2.3	1.6	3.1
US Bulk (millions USD)[3]	12.9	6.9	18.2	9.0	8.6	5.0	9.0	2.3
US Total (millions USD)[3]	28	16	31	18	13	10	15	11
Yearly Increase/Decrease in US Total (%)[2,3]	–11.4	–74.9	+47.2	–73.2	–34.6	–39.1	+34.9	–38.2
US Share of Total (%)[1,3]	7.8	4.1	6.5	2.8	2.5	1.6		

Notes: [1]FAO, [2]2004 data note shown, [3]USDA BICO

Consumer-Oriented Products

Imports constitute 30-40% of the consumer-oriented food products sold in Uganda, with consistent countries of origin including Egypt, South Africa, Kenya and the UK. Consumer-oriented food products from the US are currently available, but less consistently. Food products produced in third countries by US companies, including Kellogg and Heinz, are more common.

Most importers of consumer-oriented food products also import non-food goods. Because they typically deal in higher-value non-staple goods, importers were disproportionately affected by the economic downturn. A recent currency devaluation also hurt business. It is widely perceived that the recent austerity, caused by the downturn and national budget, will continue to put downward pressure on consumer spending in the very near term.

Beyond the very near term, however, longer-term trends are expected to drive a recovery. As temporary economic and fiscal issues have applied downward pressure, upward pressure has come from growth in incomes and in the middle class, which are expected to continue. Enhancing the prospects for growth in spending on consumer-oriented food production are Uganda's youthful population, more consumer focus on a healthy and diverse diet, higher wages, and more skilled employment in the oil industry (see Section II for more details on consumers tastes and preference). This bodes well for the volume of imports, but a recovery is likely to lead to an expansion of domestic production that will challenge imports' market share.

Economic or Demographic Indicator (CIA World Factbook)	Value	Year
Population 0-14 years old (%)	48.9	2013
Population 15-24 years old (%)	21.2	2013
Population 25-54 years old (%)	25.5	2013
Population 55-64 years old (%)	2.3	2013
Population 65 years old and older (%)	2.1	2013
Agricultural Sector – Labor Force (%) / GDP (%)	82 / 23.9	1999 / 2013
Industrial Sector – Labor Force (%) / GDP (%)	5 / 26.1	1999 / 2013
Service Sector – Labor Force (%) / GDP (%)	13 / 49.9	1999 / 2013
Population Below the Poverty Line (%)	24.5	2009
Household Income or Consumption by Bottom 10% (%)	2.4	2009
Household Income or Consumption by Top 10% (%)	36.1	2009
Gross Fixed Investment (% of GDP)	24.9	2012

Intermediate Products

Imports constitute 5-30% of the intermediate food products used in Uganda, with major countries of origin including South Africa and the UK, and few goods currently imported from the US. Uganda imports cereals such as rice and wheat, though its major staple foods are bananas and beans. Also imported are spices, white industrial sugar, whey and additives. Currently buyers are quite price sensitive, with about 95% of Uganda's imported intermediate goods having low and inconsistent quality.

The economic downturn and national austerity have had negative affects for companies producing non-staple foods, as with importers. Similarly, this should be a temporary condition that will likely be ameliorated by the same strong demand-side factors affecting consumer-oriented goods, which will also be characterized by more demand for high-quality goods (see Section II). Import costs of intermediate products are lower than for consumer-oriented products due to lower duties and higher density shipping.

Strengths, Weaknesses, Opportunities and Challenges for US Agricultural Exports

Internal	
Strengths	**Weaknesses**
USDA matching funds for advertising (instrumental in introducing American Garden products to Uganda)	High freight costs and long transit times.
USDA funded export credit guarantees (GSM-102)	Imperial units used in quotations, invoices, shipping, etc
US products considered very high quality by consumers	US companies may require shipment sizes too large for initial entry to Ugandan market
US products considered consistent in quality by importers and food producers	US companies currently extend less credit than European and African exporters
External	
Opportunities	**Challenges**
US finance and logistics businesses currently operate in Uganda	Significant support among population for domestically grown and produced foods
US businesses in many sectors currently operate in neighboring Kenya, which has close trade ties with Uganda and is its main port	Social marketing on the health benefits of locally produced goods
Co-packing and other partnering arrangements, taking advantage of higher density shipping, tariff schedule, and local importers' capital, knowledge, and engagement in the country	Indian companies have already begun exploring co-packing and other partnership opportunities
Early entry and new market development	High price sensitivity among Ugandan consumers and producers
Some importers operate mostly on a cash payment basis and rely very little on credit	Importers may have difficulty accessing credit
Uganda is heavily reliant on imports	EAC manufacture and expiration date labeling requirements are reportedly stricter than WTO
US businesses can cheaply provide information about products and export process	Ugandan companies need information about US products and import-export processes
Rapidly expanding and diversifying retail market, led by established regional chains	Higher incidence of businesses that engage in fraud, including transshipment for counterfeiting

SECTION II: EXPORTER BUSINESS TIPS

Partnering

Uganda's trade sector presents a unique opportunity for companies interested in exporting intermediate or consumer-oriented goods, by importing shipments of partially finished goods to be finished and packed in Uganda. Ugandan companies expressed a great deal of interest in either direct purchase of partially finished goods, or working closely with exporting companies to provide product finishing, packaging, and locally-appropriate service such as marketing, branding, package development and flavoring.

A wider range of imports could be introduced to the market through such arrangements, especially since intermediate goods incur lower transport costs and duties, and certification and inspection procedures may be simplified. Uganda's importers include large established companies with the capital and management capacity to make substantial investments in market development. There is significant demand in Uganda for food goods that the country's manufacturing sector does not have the capacity to produce, and partnerships present an opportunity to leverage the strengths of exporters and importers to reduce and spread risk.

Tastes and Preferences

Consumers. Ugandan consumers' price sensitivity is decreasing, driven by rising middles class, incomes desire for quality, health consciousness, and diversification of diet. The Ugandan diet is continually expanding to include international foods, while a significant amount of health social marketing in the last three years has contributed to a more diversified diet including higher-quality foods. However, other marketing efforts by the government and by businesses stakeholders have promoted local food products as healthful, implying that imported foods products are less healthy. Regardless, availability of higher-quality goods demanded by consumers continues to be an issue, presenting opportunities for potential exporters.

Producers. Most intermediate goods are basic ingredients bought at the lowest price, though there is increasing willingness and capacity to pay a premium for quality. Demand is relatively strong for high-tech ingredients that Uganda does not have the industry to produce (e.g. textured soy protein).

Shipping

Almost all goods are shipped through the Port of Mombasa in Kenya and enter landlocked Uganda overland, destined for Kampala, the capital and main city. Transport by air or through Tanzania's Port of Dar Es Salaam is more expensive, and entry via Lake Victoria is uncommon. Most large importers ship products into the country through whole shipments, with smaller operations much more likely to utilize consolidated shipments.

Shipping costs and times limit export opportunities to Uganda. The 2013 Doing Business report for Uganda (WB) places the per-container costs at three times the average for OECD countries. The Uganda

Manufacturer's Association and Ugandan importers state that Mombasa-to-Kampala shipping costs are USD 3500-4500 for a 20 or 40 foot container. Including all clearance processes, that journey takes around two weeks. Transit time from the US to Mombasa is two months.

Rehabilitation of rail within Uganda and through Kenya has the potential to significantly decrease shipping costs. Uganda's rail network is currently in disrepair, but the development of oil fields has led to improvements along the North-South corridor. These could help provide a lower cost connection to ports as the EAC continues to implement and fund its Railway Master Plan.

Food Standards and Regulations

The primary governmental body responsible for food standards is the Ugandan National Bureau of Standards (UNBS). Domestically produced and imported products must bear one of two marks, an "S" mark for standard or a "Q" mark for quality. Obtaining a Q mark requires that the producer meet HACCP standards, which, along with ISO certification, is required for export. Also, food processors and manufacturers that make products bearing the Q Mark may avoid having their imported ingredients inspected. Standards are mostly based on health, and information is readily available to potential exporters. The UNBS standards are very similar to their Kenyan counterpart (KEBS) and are likely to become more so as EAC integration continues to ease the requirements for both cross-border trade and international trade to Uganda through Kenya.

The Minister of Agriculture, Animal Industry and Fisheries includes the Crop Protection Department, which issues phytosanitary certificates for exports and imports. Taxes and duties are collected by the Uganda Revenue Authority.

General Import and Inspection Procedures

The official importation procedure is straightforward and mostly digital. For any import, the main requirement is to obtain a Pre-Export Verification of Conformity (PVoC). First, a pro forma invoice is sent from the exporter to the importer, who then contacts the Ugandan office of an Appointed PVoC Agent, a company licensed by the Ugandan government to evaluate standards compliance (e.g. Bureau Veritas, Intertek, or SGS). The agent then contacts their office in the exporting country, where the standards check is completed in one of three ways: a factory audit; a factory audit with random checks; or checks of all items. After the check has been successfully completed, a certificate of conformity is issued. Health, phytosanitary, and other certifications may be issued at the same time, if required. Inspection requirements may be reduced for ingredients exported to Ugandan producers manufacturing goods that bear the UNBS Q mark. In practice, having a certificate of conformity does not completely guarantee against inspections at the border.

PVoC was recently implemented by the government to reduce the amount of substandard goods entering the country, and is viewed positively by importers despite the additional cost (USD 200-300 per container). Increasing consistency and acceptance between Ugandan and Kenyan import standards and processes continues to ease trade, because most goods enter Uganda through Kenya. If goods have already been officially imported into Kenya, the importation documents will be honored by Ugandan officials. Also, goods bound for Uganda do not need any clearance from Kenyan officials to be landed and transported to the Ugandan border.

Ugandan importers/processors collaborate with US trade associations including the World Institute for

Soy in Human Health (WISHH) and the US Wheat Association to develop markets for US products.

The following table summarizes duties currently paid by importers. Other costs of importing, beyond the price of the goods and freight charges, are usually around 5% of the value.

Name	Rate	Details
Import duty	0-10% for ingredients, 25% for consumer goods, 10% for baby products, up to 50% for select goods	Categorical differentiation is based on the EAC's harmonized code. Tax on ingredients changes by product, and may be graduated with volumes. Select goods category may include juice/pulp, milk powder, beef, and chicken.
Value Added Tax	18%	Usually recouped, since the same rate is applied when the goods or products are resold at higher unit prices
Withholding	6%	Corporate taxes withheld
Domestic VAT (some companies)	15%, possibly lower for ingredients	Paid by companies that cannot prove compliance with VAT
Excise (some goods)	13%	Juices, sugar, and other goods

SECTION III: MARKET SECTOR STRUCTURE AND TRENDS

Continued growth of Uganda's retail sector presents an opportunity for potential exporters, especially because hypermarket chains claim a small and rapidly growing share of the sector. Hypermarkets are similar to US department stores but with larger food selections, bringing increased variety, improved consistency, and high-value goods to consumers.

According to Uganda's Daily Monitor newspaper, the country's overall retail sector is growing 20% per year. Both the Daily Monitor and Kenya's Daily Nation newspaper report that regional hypermarket chains have been quickly expanding in Uganda since 2010. In particular, Kenya's competitive supermarket sector has spilled over, with chains Nakumatt, Uchumi, and Tuskys all recently opening stores in the country. The number of hypermarkets has increased from around 3 in 2007 to at least 20 at present, and continues to rise. Nakumatt operates 37 stores in five East African countries, with its second largest presence in Uganda.

Generally, importers and processors of consumer-oriented food goods sell to a wide variety of customers, including hypermarket chains, distributors, wholesale markets, and individual supermarkets, small stores, and kiosks. Food product manufacturers either import directly or purchase from importers, many of which are Kenyan companies. Hotels, restaurants and institutions get their imported food products from many different sources, including direct import, importing companies, distributors, wholesalers, hypermarkets, and the general market. Wholesalers supplying goods to Ugandan and South Sudanese retailers are clustered in a long a narrow road lined with multiple stories of shops in Kampala, called the Kikuubu district after the Luganda word for alley.

SECTION IV: KEY CONTACTS

US Government

Office of Agricultural Affairs
Embassy of the United States of America
P.O. Box 606 Village Market
00621 Nairobi, Kenya
Tel: 254-20-363-6000
agnairobi@fas.usda.gov
www.fas.usda.gov/itp/Kenya/Nairobi.asp

Foreign Commercial Service
Embassy of the United States of America
P.O. Box 606 Village Market
00621 Nairobi, Kenya
Tel: 254-20-363-6000
Office.Nairobi@trade.gov
export.gov/kenya/

Ugandan Government

Uganda National Bureau of Standards
P.O. Box 6329
Kampala, Uganda
Tel: 256-800-133-133, 256-414-505-995
info@unbs.go.ug
www.unbs.go.ug/

Uganda Revenue Authority
P.O. Box 7279
Kampala, Uganda
Tel: 256-800-117-000
info@ura.go.ug

www.ura.go.ug/

Ministry of Agriculture, Animal Industry and Fisheries
P.O. Box 34518
Kampala, Uganda
Tel: 256-414-531-411
ps@agriculture.go.ug
www.agriculture.go.ug/

Appointed PVoC Agents

Bureau Veritas North America
United States
Tel: 1-888-357-7020
www.us.bureauveritas.com/wps/wcm/connect/bv_usnew/local

Intertek
United States
Tel: 1-800-967-5352
www.intertek.com/

SGS North America Inc
201 Route 17 North
Rutherford, New Jersey, 07070
United States
Tel: 1-201-508-3000
www.sgs.com/

Ugandan Importers and Food Producers

Kookee Enterprise Ltd
P.O. Box 16252
Kampala, Uganda
Tel: 256-414-254-026
kookee@spacenet.co.ug

National soya bean Network
P.O.Box 29585

Kampala, Uganda
Tel: 256-782-285-608
soynetuganda@gmail.com

Reco Industries Limited
P.O. Box 257
Kampala, Uganda
Tel: 256-414-232-183, 256-312-262-676
info@reco-industries.com
www.reco-industries.com/

Translink Uganda Limited
P.O. Box 12034
Kampala, Uganda
Tel: 256-414-342-421
admin@translink.co.ug
www.translink.co.ug/

Sesaco Industries Ltd
P.O. Box 31266,
Kampala, Uganda
Tel: 256-312-101-171
info@sesacosoya.com
www.sesacosoya.com

APPENDIX

Note on Sources

Except where cited, the descriptions and forecasts in this document were based on interviews with nine importers and food producers in Uganda. Many relayed mutually supporting information, though parts of this report are based on a single source. Facts were checked when possible. The information provided may be incomplete and is subject to change.