The
Foods and Beverages
Industry

CONTENTS

Overview of The Foods and Beverages Industry

Uganda is East Africa's food basket. It produces a range of food staffs including root crops, grains and legumes, as well as fruits and vegetables. The wide range of production is made possible by a favourable climate and fertile soils with a temperature range of 15-30^{o}C and an annual rainfall of 750-2000mm.

The crop products can be subdivided into three on the basis of their potential to contribute to the livelihood of the producer.

- Cash crops - produced for sale.
- Food crops - food provision to the producing household.
- Non-traditional cash crops- traditional food crops but are now mostly produced for sale.

The foods and beverages sector consists of:

- The foods sub sector covering food crops, processed food products and food ingredients.
- The beverages sub sector covering coffee, tea and cocoa as well as manufactured alcoholic and non-alcoholic drinks.

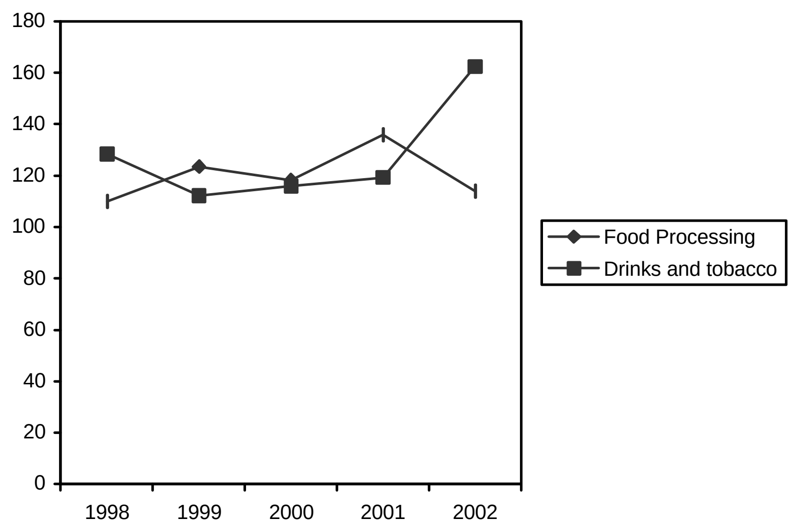
Level of exploitation in the foods and beverages sector

In the category of medium to large scale industries in the sector are sugar processing and manufacture of alcoholic and non-alcoholic beverages. The rest of the foods and beverages industries are small scale.

Both the annual indices of industrial production and the volumes of products in the foods and beverages sector have been growing. Industries that showed dramatic growth between 1998-2001 include sugar, beer and soft drinks. The edible oil, wheat flour, biscuits, sweets, toffee and Soya foods industries also showed considerable growth in the same period, see Figure 1.

However, the first half of 2002 experienced downward performance due to some sluggish demand for meat and fish especially following the festive months of December 2001. This downward performance in 2002 was also as a result of annual maintenance and repair works in one of the major establishments. The trend continued to decline to a low index level of 89.3, the lowest level since 1998. However, by end of June, the index had recovered by 24.3% to reach a level of 111.0%.

Fig 1: Annual Index of Industrial production



Source: Uganda Bureau of Statistics, Statistical Abstract 2002[1]

[1] *The figures for 2002 are for January to only*

AN OVERVIEW OF THE SUB-SECTORS

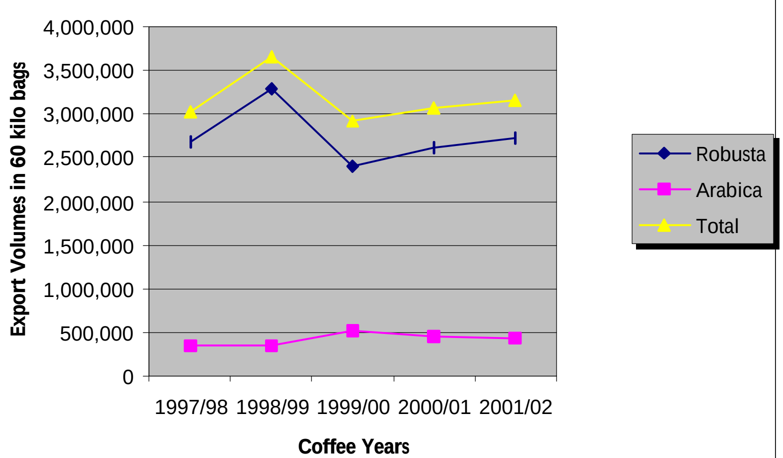
The coffee sub-sector

Coffee has been the largest single foreign exchange earner for Uganda since the 1970's to-date despite the continued depression in the world coffee prices. Currently, Robusta coffee accounts for 90% of the total production and Arabica coffee accounts for the remaining 10%.

Coffee production is dominated by smallholdings accounting for about 94% of the 270,000ha planted with coffee. The policy in production is to replace all the old and less productive Robusta coffee tress with the high yielding cultivars – clonal plantlets and elite seedlings. As for Arabica coffee, the policy is to step up proportion of Arabica from the current level of 10% to around 15% in the next four years with elite Arabica varieties: SL 28, SL 14 and PNG; and expanding the acreage under Arabica coffee both in the traditional and new districts.

The trend of coffee exports has been more or less constant with over 3 million bags exported in the coffee year 2001/2002. Figure 2 below shows the exports trend over the recent five years.

Figure 2: Coffee Exports by Type and Totals: 1997/98-2001/02



Source: Uganda Coffee Development Authority, Annual Report 2001/02

Markets for Coffee

Ugandan robustas, compete in a commodity segment of the world market governed by the international prices as quoted on the London International Futures Financial Auction Exchange (LIFE).

Ugandan robustas occupy a special role in blends, soluble coffee and some niche 'stand-alone' products as substitutes for low quality Arabicas. Ugandan Robustas are therefore traded at premiums over LIFE.

Coffee Exports by Destination

Table 1 shows Uganda coffee exports by destination in 2001/02 coffee year[2] The European Union, continued to be the major destination of Ugandan coffee, accounting for over 86% (2.72 million bags) while the Sudan came second, ahead of Switzerland, with 158,000 bags representing 5% of the market share.

Table 1: Uganda Coffee Exports to 10 biggest destinations in 2001/02 (60 kilo bags)

No.	**Exporters**	**Quantity**	**Percentage Market Share**	
	Grand Total	3,146,381	100.00	Cumulative
1	EU[3]	2,717,071	86.36	86.36
2	Sudan	158,077	5.02	91.38
3	Switzerland	135,701	4.31	95.69
4	Hungary	45,046	1.43	97.12
5	USA	20,170	0.64	97.76
6	Poland	20,066	0.64	98.40
7	Eritrea	12,170	0.39	98.79
8	Singapore	11,714	0.37	99.16
9	Morocco	7,240	0.23	99.39
10	Japan	5,420	0.17	99.56

Source: Uganda Coffee Development Authority, Annual Report 2001/02

Table 2 also shows coffee exports by ten largest overseas buyers during the 2001/02 Coffee Year.

Table 2: Coffee Exports by 10 major overseas buyers in 60 kilo bags

		Quantity	**Percentage Market Share**	
No.	**Overseas Coffee Buyers**	3,146,381	Individual	Cumulative
1	SUCAFINA	565,145	17.96	18.0
2	DRUCAFE	328,617	10.44	28.4
3	OLAM INTERNAT.	278,157	8.84	37.2
4	ICONACAFE	165,169	5.25	42.5
5	ECOM AGROINDUST	162,011	5.15	47.6
6	ELMATHABIB	159,715	5.08	52.7
7	DECOTRADE	151,715	4.82	57.5
8	VOLCAFE	141,318	4.49	62.0
9	SOCADEC	126,565	4.02	66.1
10	COMPANIA	66,653	2.12	68.2
11	Others	1,001,286	31.8	100

Source: Uganda Coffee Development Authority, Annual Report 2001/02

In all, only 10 buyers controlled over 62% of the coffee exported during the year 2001/02. Similarly, in Uganda 10 companies controlled over 80% of the total coffee exported during the same period and these companies are in order of their market share: Ugacof (15.5%); Pan Afric

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[2] *Coffee Year begins from October 1st-30th September*

[3] *Members of EU countries include: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and the United Kingdom.*

Impex (U) Ltd (13.5%); Intertrade Service Ltd (8.3%); Great Lakes (8.2%); Olam (U) Ltd (7.6%); Kampala Domestic Store (7.0%); H.M. Nsamba & Sons Ltd (6.3%); Kyagalanyi Coffee Ltd (5.2%); Kawacom (U) Ltd (5.1%); and Ibero (U) Ltd (4.1%). The total value of exports from coffee for the last five years is as presented in Figure 3.

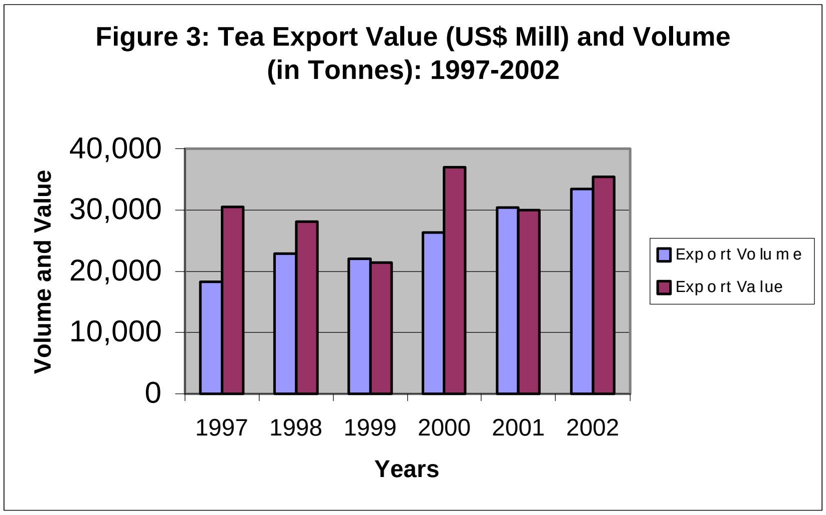
Tea sub-sector

After coffee and cotton, tea is the third most important cash crop for Uganda. Before 1986, tea estates had been neglected and production was low. By 1996 more than 70% of the total area under tea had been rehabilitated and by end of 2002, the total area had grown to over 20,000 ha, equally distributed between tea estates and out growers.

Uganda produces mainly black CTC tea from tender leaves, which are mostly hand picked. Tea is largely grown along the Lake Victoria Crescent and the lower slopes of Rwenzori Mountains as well as above the Western Rift Valley. In Uganda, tea is grown into three grades: grade 5/8 is commonly grown and approximately there are 3,000 plantations each producing about 2,500 kg per hectare annually. The other brands of 303/573; 31/8 and 31/37 are international proven good quality tea and approximately 8,000kg per hectare can be realised but these grades have just been introduced in Uganda.

Uganda's volumes and value of tea exports have been growing since 1991. The large tea estates are more productive than the smallholder out growers. While the estates and small producers each hold 50% of the total 20,000 ha under tea production, smallholders produce only 25% of the total production. This is because yields of the small-scale producers are as low as 1300kg /ha compared to 1800 kg /ha in the large estates.

As a result of the rehabilitation, tea production increased by over 84% in the period 1986-97 whereby total production reached 17.4 million kgs of made tea of which 83% was exported fetching US$14,982,000 in foreign exchange. By end of 2002, tea production climbed to 33.3 million kgs fetching Uganda US$36 million. Uganda’s export diversification programme aims to boost tea production to 40 million kgs by 2005. Currently, 85% of Uganda’s tea is sold through the Mombasa auction, 3% by private treaty and the rest is consumed locally or exported directly to Poland, Ethiopia, Ireland and Britain. Figure 4 gives the export levels by volume and value between 1997-2002.



Source: Uganda Bureau of Statistics, Statistical Abstract 2002

At the international scene, world consumption of tea is expected to grow from the current level of just over 2 billion tons to over 2.4 billion by 2010. Appendix 4 shows this projection yet the projected export levels meet just a half of this demand as can be seen from Appendix 3.

Cocoa sub-sector

Cocoa has been produced in Uganda for over 80 years. It is grown in 10 districts: Mukono, Jinja, Iganga, Kamuli, Bundibugyo, Hoima, Masindi, Kabale, Mpigi and Luwero. Cocoa has been identified by GOU – MAAIF as one of the crops with high potential to diversify export mix of Uganda and boost the country's export earnings. MAAIF therefore, has a "Cocoa Development Program" covering the 10 growing districts. The project is funded by USAID and GOU to the tune of US$ 1.594 million.

Project achievements include:

- Training for 4,000 cocoa farmers and 70 extension workers.
- A total of 550 ha of planting materials were raised and issued to farmers.
- A cocoa production manual produced.

Over the last five years, cocoa production has been doing very well. The Uganda's Investment in Development of Export Agriculture (IDEA) Project through the Uganda Cocoa Association has been facilitating farmers and by the end of 2002 had trained over 4000 farmers in all aspects of cocoa production. In term of performance, cocoa exports were estimated at 3,100 metric tonnes valued at US$4.97 million, the highest figure recorded since the cocoa programme started. At the international market, world demand for cocoa remained strong throughout 2002 and farmers received payment of up to US$1.05/kg.

Various horticultural products

Horticultural products include high value export products fetching relatively high prices for farmers. Research is focusing on identification of suitable varieties and cultivars. Production and export of high value crops like vanilla has shown a continuous upward trend and the potential for growth is still high as shown in figure 4. Both the volume and value of vanilla exports have been increasing since 1997 to date from respective figures of 25 tonnes and US$0.6 million to 75 tonnes and over US$ 9 million.

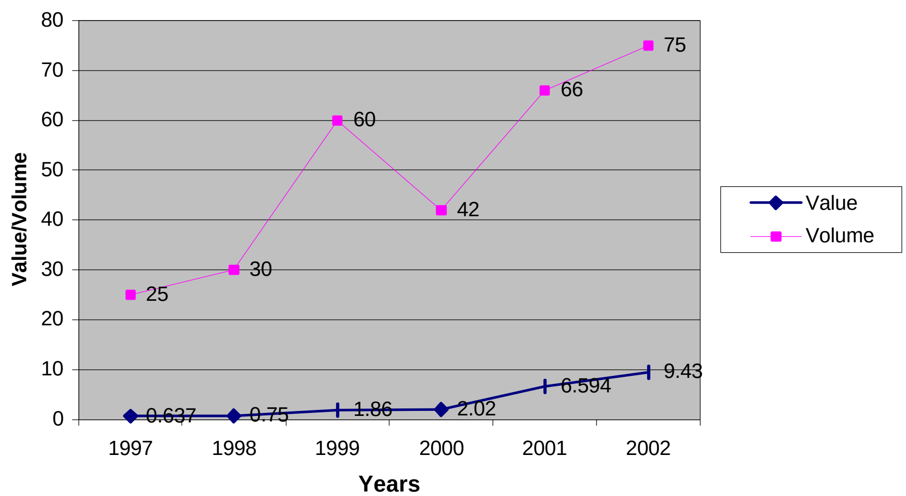
Bananas sub-sector

Bananas is one of the major food crops grown and consumed in Uganda. For a long time it was grown as food crop based on traditional production systems and for home consumption solely. With the move towards non-traditional cash crops and exports, bananas are now grown on commercial scale, demanding higher efficiency and productivity. The traditional system of production is no longer desirable due to its low yield and poor pest and disease control systems.

In 1992, GOU commissioned a project to improve productivity of banana strains and cropping systems. This resulted in a steady increase in area under bananas and yields per hectare. Specific achievements include:

- The multiplication of 2 new exotic banana cultivars resistant to pests and diseases
- Dissemination of improved banana production technologies e.g. the use of clean (disease/pest-free) planting materials
- Establishment of on farm evaluation plots for multiplying disease-free planting materials
- Production of a banana production manual
- Conducting workshops and field days for farmers and extension workers

Figure 4: Value (US$ mill) and Volume (Tonnes) of Vanilla Exports: 1997-2002



Source: Agribusiness Development Centre, Eight Annual Progress Report, 2002

As a result of these efforts, the area planted with bananas and the total production have increased. Table 3 gives the output levels of bananas and other products from 1995-2002.

TABLE 3: PRODUCTION OF SELECTED AGRICULTURAL PRODUCTS, 1995 – 2001 (‘000 TONS)

PRODUCT	1995	1996	1997	1998	1999	2000	2001[a]	2002[b]
Bananas	9,012	9,144	9,303	9,318	8,949	9,428	9,732	9,888
Finger millet	632	440	502	642	606	534	584	590
Maize	913	759	740	924	1,053	1,096	1,174	1,217
Sorghum	399	298	294	420	413	361	423	427
Rice	77	82	80	90	95	109	114	120
Wheat	9	9	9	9	11	12	14	14
Root crops	N/A	1,866	2,254	2,560	2,803	2,876	3,023	3,138
Beans	39	234	221	387	558	574	665	692
Ground nuts	144	125	91	140	137	139	146	148
Soya beans	79	87	84	92	101	128	144	166
Sesame seed	71	73	73	77	93	97	102	106
Total	-	13,239	13,776	14,789	14,819	14,819	16,121	16,506

Source: Uganda Bureau of Statistics, Statistical Abstract, 2002
a Estimates, b Projections

Cereals sub-sector

Maize
Maize is regarded as the third most important crop in Uganda. It is the most widely grown and consumed cereal in Uganda. It is also the most common staple in sub-Saharan Africa (SSA). The market for maize meal is mainly regional. Besides the regional market, there is a significant market of international relief organizations particularly World Food Program, which consumes 200,000 – 400,000 Tonnes of maize annually depending on regional conditions. Uganda grows a drought tolerant and disease resistant variety that accounts for 60% of the total area under maize.

As Table 3 depicts, maize output has been increasing since 1995 from just over 900,000 tonnes in 1995 to over 1,200,000 tonnes to date. Maize has potential for export especially within the region and SSA since it is a staple in these areas. Export earnings from maize have been unstable but now projected to increase. However in 2002, over 60,000 metric tonnes of maize were exported which was made possible with the signing of a contract that brought the first ever commercial export of maize from Uganda where a total of 21,000 metric tons of maize grain valued at US$2.31 million FOB was delivered by the Uganda Grain Traders Ltd to Zambia. In terms of volume, maize exports decreased over 2001 by about 30%. Before this decline, however, maize exports increased from under 37,000 metric tonnes in 1995 to over 85,000 tonnes in 2001.

Finger millet and Sorghum
Both are widely grown especially in the semi arid areas of Eastern and Northern Uganda. They are grown as a staple but also used as ingredients for local brews and porridge. Currently, most of the production is for domestic consumption. National Agricultural research Organization (NARO) is involved in research on these staples and released one improved millet variety and two for sorghum in 2000. As a result, there has been some increase in the area and production of finger millet and sorghum.

Rice
Most of the rice consumed in Uganda is imported from Asia due to insufficient production and poor quality of the locally grown crop. To increase production, GOU-MAAIF is implementing

the “Olweny Swamp Rice Irrigation Project” (OSRIP) in Lira district. However, production remains below national demand making Uganda a net importer of rice amounting to over 60,000 tonnes per annum. In the mid-2003, Tilda (U) Ltd is expected to commission its rice brand that will significantly complement the current local output levels. Varieties of rice like WAB 165, which has good cooking ability and early maturity of 116 days and other varieties like ‘New rice for Africa, are being introduced in Uganda to boost local output levels.

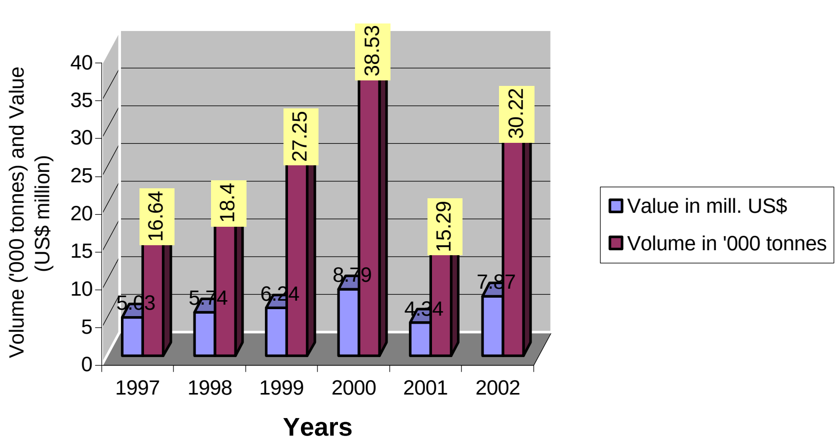
Wheat sub-sector

Wheat is mainly grown in the cool areas of Uganda with an altitude of at least 1500 meters e.g.: Kabale, the slopes of Mt. Elgon, western highlands of Fort Portal, Rwenzori slopes and parts of Mbarara and Bundibugyo. Wheat production in Uganda is still low but has prospects to increase with the development of varieties with higher yields that are suitable to Uganda’s growing conditions. Current annual output levels are estimated at 14,000 tonnes but were at 9,000 tonnes over five years ago.

Beans and other legumes

Of the pulses grown in Uganda namely, beans, field peas, cow peas and pigeon peas; beans have the highest potential for investment. Like maize, beans have a potential for export especially within the sub-Saharan region. Export earnings from beans have been unstable but are projected to increase. Output levels for beans have been growing from 32,000 tonnes in 1995 to an estimated 692, 000 tonnes by end of 2002. In terms of export volumes and value, in 2002 about US$ 8 worth of beans were exported in 2002. The performance of beans on the international market, over the recent past, can be seen from figure 5.

Figure 5: Volume and Value of Beans Exports: 1997-2002



Source: Agribusiness Development Centre, Eight Annual Progress Report, 2002

Uganda is increasingly penetrating the Southern African market for both maize and beans. During 2002, initial market indication was for 3,000 metric tonnes delivered by sea to Luanda, Angola. More contracts have been signed between the Uganda Grains Traders Ltd and commercial consumers in Luanda-Angola and Lusaka-Zambia for exports of beans. This continued demand for products serves to highlight the importance of the raised profile of Uganda as an exporter.

Papain

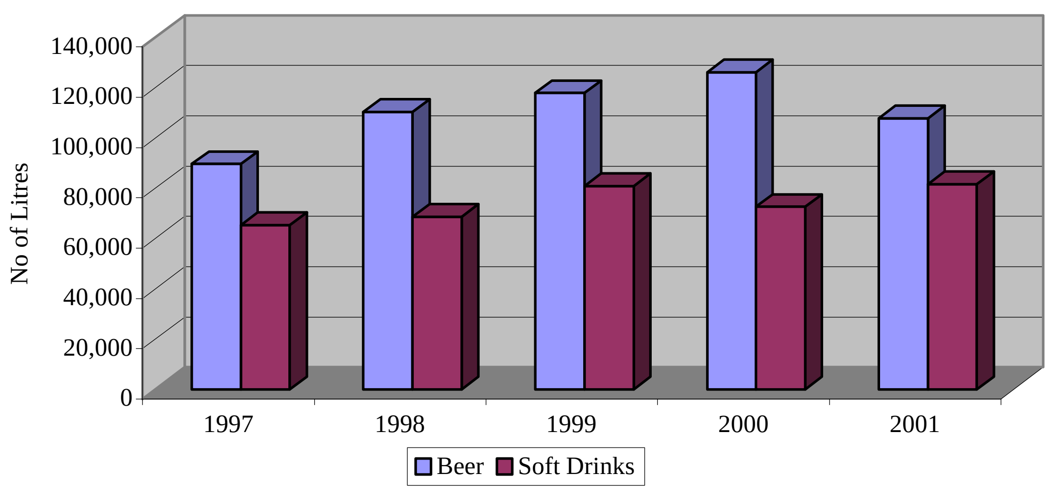
Total papain exports recorded through Entebbe in 2002 exceeded 250 metric tonnes valued at US$ 3-4 million and additional amounts were reported through overland border posts. In Uganda, papain grows readily and could boost up Ugandan exports of high valued products if efforts are put in to promote the growing of this crop. Currently, a larger proportion of papain is produced in Western Uganda and output levels have been increasing slowly but steadily.

Alcoholic and non-alcoholic beverages sub-sector

The three (3) biggest foods and beverages establishments in Uganda are the beer, sugar and soft drinks industries. The beverages sub-sector is large, in terms of employment it employs over 20,000 people, only second the civil service.

Based on the annual index of industrial production, the performance of the sugar, beer and, soft drinks industries has been getting better since 1990 which is also particularly attributed to the ever increasing consumption pattern on the part of Ugandan consumers. For instance, Uganda spends on average, 4 percent of their total consumption on beverages. The soft drinks beverages include fruit juices, squashes and carbonated drinks. The number of major establishments producing soft drinks increased from four in 1990 to fifteen in 2002. The market leaders, however, are the producers of carbonated drinks, namely Century Bottling Company (Coca-Cola) and Crown Beverages (Pepsi,) followed by Britannia Beverages. The industrial production index of soft drinks stood at about 34 percent between 1997 (base year) and 2002 reflecting an increase in the production levels from 65.3 million litres to 81.6 million litres during the same period as shown in the graph below.

Figure 6: Production of Beers and Soft Drinks 1997-2001 ('000s Litres)



***Source*: Uganda Bureau of Statistics, Statistical Abstract, 2002**

The main alcoholic beverages produced in Uganda are beer and spirits. The major producers of beer include Uganda Breweries Limited (UBL), which is a subsidiary of Kenya Breweries Limited and Nile Breweries Limited (NBL), which is a joint venture between the Madhvani Group of Companies and South Africa Breweries Limited. Installed capacity for the two firms is 570,000 hectolitres (hl) per annum. The demand for their products is growing every year. The index of industrial production of beers in 1997 - 2002 was 30 percent, representing an increase from 89.6 million to 107.9 million litres over the same period. Meanwhile, there are four firms producing spirits, namely *International Distillers*, *3R International*, *Premium Distillers* and *West Nile Distillers*. Their combined production increased from 606,000 litres in 1997 to 990,000 litres by end of 2001.

There is growing demand for beverages as indicated by the upward trend in the manufacture of these products. This is an indication of increasing opportunities in the manufacture of beverages in Uganda for the domestic and the foreign market, especially the fruit concentrates where Uganda has a comparative advantage. There are numerous small-scale producers of fresh fruit juices packed in polyethylene pouches. The biggest soft drink producers are franchises of big international companies Pepsi Cola and Coca-Cola, producing carbonated drinks. Of late, 2 medium scale industries have emerged producing a low cost fruit juice from imported concentrate that is very popular with school children. Another growing sector in the drink category is the mineral water and sparkling water is especially absent from the Ugandan market.

Resources availability for the foods and beverage sector

Raw materials

- The wide variety of agricultural products provides a wide raw material base for agro processing industries.
- In addition, 80-95% of the population is involved in agricultural production, presenting unlimited potential for contract production of large quantities of specific raw materials
- In most parts of the country with 2 rain seasons, 2 crop harvests are possible further increasing possibilities for high production of raw materials
- Low labour costs and minimal requirements for irrigation, and fertilizers present good prospects for production of raw materials by the processing industry.

Uganda's Competitive Advantage

Good climate

Uganda's competitive advantage in the production and processing of foods and beverages is favoured by fertile soil and good climatic conditions consisting of an average annual rainfall of 750-2000 mm and a temperature range of 15-30^{o}C with a very narrow diurnal range.

Availability of a Highly Trained Labour Force

- Uganda presently produces over 10,000 University graduates annually, with varied skills
- Training institutions in Uganda are responsive to the needs of the private sector, which has resulted in practical graduates
- Workers with technical and vocational skills are readily available
- Uganda has no history of labour disputes
- Ugandan workers are proficient in English and a number are proficient in other international languages like French and Germany
- Beginning October, 2003 a degree course in horticulture, department of Crop Science Makerere University shall be established to cater for the growing technical needs of the sub-sector.

Developed Infrastructure

- Uganda has a well-connected road system linking the country to its principal trading partners and has rail links to seaports. The national airport at Entebbe has developed into a key regional facility
- Abundance of power. Installed capacity for power generation in the country has increased from 183 MW to 317 MW in the recent past .
- Telecommunication is well developed, with rural areas covered by cellular communication.
- 1,000 ha, located at Namanve, about 15 km from the city Centre has been reserved for an Industrial and Business park.

Support from Government and International Development Partners

- The Government of Uganda has set up the Uganda Investment Authority, which is a one stop

centre for private investors
- Numerous International Development Agencies such as the World Bank, USAID, DFID, UNDP and ADB have invested millions of dollars in promoting the private sector in Uganda.

Security of Investment
- Uganda is a member of the Multilateral Investment Guarantee Agency (MIGA) under which foreign investors can insure their investment in Uganda against a wide range of non-commercial risks
- Uganda has bilateral investment protection arrangements with a number of Countries
- Uganda's constitution guarantees the right to property

Good Quality of Life
- Uganda has a wealth of natural and man made attractions that make it one of Africa's greenest and most scenic countries
- Uganda friendly people and a rich cultural climate
- There are high quality educational and medical facilities
- Uganda has first class hotels, restaurants and other entertainment facilities

Policy Environment
Uganda's policy environment is ahead of all regional countries in privatisation and open market economy. This allows private investors to enjoy benefits of their investments and to engage in external trade without unnecessary restricts. Government also consults private investors in developing policies.

Strategic Position
Uganda is strategically located and takes advantage of the markets in Rwanda, Democratic Republic of Congo, Northern Tanzania, Southern Sudan and Western Kenya.

Market and Market Prospects

Overview

- Based on market prospects, foods and beverages produced in Uganda can be categorized into 3 broad categories:
- products for domestic consumption and domestic markets e.g. bananas/plantains, root crops, grains such as millet and sorghum etc.
- those with both domestic and regional market prospects e.g. maize, beans, rice, sugar, alcoholic and non-alcoholic beverages
- those that are tradable in the world markets besides having some limited domestic and regional potential e.g. coffee, tea, cocoa spices, horticultural crops, vegetables and nuts.

Market opportunities in Europe

Uganda has got tariff and quota free access to the EU market under the Lome Convention. Non-traditional export products of high value such as spices and nuts present especially big opportunities in EU markets. A special niche exists in European markets for organic products, much of which come from developing countries. Trade in organic foods and beverages has become an important global agri-business. By 1997, there was an estimated US$ 11 billion market in Denmark, France, Germany, The Netherlands, Sweden, Switzerland and The United Kingdom. Other importing countries include: Italy, Austria, USA and, Japan.

Organic trade is of particular interest for Uganda because, in spite of the overall slow /stagnated growth in food purchases in general, the market for organic foods is growing.

The East African Market

- This is a market of about 85 million people covered under the East African Community (EAC).
- There is a list of goods still being worked on to be subjected to a surcharge without reciprocity when imported from Kenya to Uganda or Tanzania.
- A list of manufactures that will attract a zero tariff rate for the tripartite trade is also being worked out.
- There has been an agreement in principle on establishing a Common External Tariff

(CET) but its rate is not yet agreed upon. However at present, Uganda has the lowest customs tariff among the three countries.

- Rules of origin are not yet worked out, but it is proposed to use COMESA rules of origin.
- Unlike the defunct EAC, the current arrangement is market oriented and private sector driven.
- It has been agreed that the region has a comparative advantage in the agricultural sector and a study on the "Strategy on Agricultural Development" for the region is on going. The EAC and its focus on agricultural development, presents enormous chances for Uganda, because of the three countries, Uganda offers better avenues for agricultural development and agricultural related trade.

The COMESA Market

The Common Market for Eastern and Southern Africa (COMESA), is a regional economic co-operation group of 20 African countries with an estimated population of 367 million people (Appendix 1).

The overall objective of COMESA is to promote regional integration through development of trade, natural and human resources. COMESA is one of the more successful regional economic groups in Africa. It has financial specialized institutions to support its activities namely:

- The Trade and Development Bank for Eastern and Southern Africa (PTA)
- The Leather and Leather Product Institute (LLPI).
- The Clearing House.
- The Re-insurance Company.

Most of the co-operation progress has been made in trade liberalization.

- Intra-COMESA trade has grown from US $ 1,624 million in 1991 to US $ 4,200 million in 1998.
- An Automated System for Customs Data and Management (ASYCUDA) is used in all COMESA member states.
- There have been tremendous tariff reductions as indicated in appendix 2.
- Agreement has been reached to implement a Common External Tariff (CET) by the year 2004 with a proposed CET of 0%, 5%, 15% and 30% on capital goods, raw materials, intermediate goods and final goods respectively.
- Agreement has been reached to transform COMESA into a Free Trade Area (FTA) based on reciprocity and some countries are already implementing 100% tariff reduction (Appendix 2).

The COTONOU ACP/EU Partnership Agreement

This agreement is to replace the ACP/EU relationship agreement. Under the agreement, EU will be requested to establish a single regional fund for Eastern and Southern Africa region and COMESA states will adopt a common position on European Development Fund (EDF).

The Investment Opportunities

Production and export of organic foods and beverages

Opportunities exist for Ugandan investors to produce and export organic products to Europe, USA and Japan. Especially advantageous are organic products e.g. coffee, tea, cocoa, spices, tropical fruits, vegetables, and citrus fruits that are not produced in the importing countries. Further opportunities exist in the production and export of off-season products such as fruits and vegetables.

Other investment opportunities

- Establishing agro-processing industries
- Export of non-traditional export commodities
- Foods & beverages retail businesses e.g. supermarkets and food supply chains
- Export of high value agricultural ingredients for food processing industries in the West

Investment opportunities in the coffee sector

Production for 'niche' and 'specialty markets. There is potential to grow organic coffee for some specialised markets as has been tried by a few Ugandan companies.

Producing Washed Robustas: There is need for massive re-introduction of washed robustas since this gets premium price over dry-processed robustas. The value of washed robustas on world markets is usually between that of dry-processed robustas and that of Arabicas.

Coffee Roasting: There is need to encourage coffee roasters to establish in Uganda especially with the aim to produce quality products that meet the demand of consumers, both local and foreign.

Opportunities in the tea sector

Tea production can be increased by planting high yielding varieties and use of fertilizers for maintenance of soil fertility. There are currently good prospects in producing and exporting tea as shown by the continuous upward trend in tea production and exports.

Joint venture opportunities exist in some of the existing companies such as Igara Tea Factory and Kayonza Tea Factory: These companies are expanding to be able to process the increasing amounts of raw tea supplied to the factories by farmers.

Only 20 per cent of the ideal land for tea growing is currently utilised leaving the balance for prospective investors to take advantage of.

Currently, over 70 per cent of Uganda's tea is marketed through the Mombasa auction. Therefore, opportunities are still abound to promote Uganda's tea as an international brand.

Opportunities in the cocoa sub-sector
In Uganda, cocoa is solely exported as dry beans. Prospects exist for increased export of cocoa beans as well as opportunities for processing and adding value for the local, regional and export markets. Uganda currently has no cocoa products producing plant and is importing cocoa for beverage drinks, industrial production of sweets, confectionery and ice cream.

Investment opportunities in the cereals sub-sector
Maize

- Efficient commercial maize production since current production is mainly by small-scale farmers
- Export market potential exists in the regional markets as well as SSA
- Maize could be used for industrial production of starch and to replace imported cereals in the brewing industries (a limited amount is currently being used in local brews).

Opportunities exist in use of sorghum and millet in industrial brewing, production of weaning foods and breakfast cereals. Being drought tolerant, maize could be grown on otherwise redundant marginal land.

Rice
The rice grown in Uganda is preferred in the Ugandan market. Compared to imported rice, it is said to have better taste/flavour. The production however, has been low and much of the rice consumed is imported. Opportunities are in increased production of rice followed by processing, packaging and branding for the local and regional markets, which could easily replace imports at a competitive price.

Wheat
Opportunities exist in the wheat growing industry since most of the wheat milled is imported. The demand for wheat flour has been increasing with the growth of the bakery industries.

Opportunities in beans sub sector
Market for dry beans exists, locally, regionally and internationally. Demand exists in East and Western Uganda, across borders within the region and for the relief agencies (up to 300,000 MT per annum) with the instability in the region fuelling the demand. Within the country, beans could be canned for the local, regional and export markets.

Opportunities in the beverages sector
Cost indicators for investments in the foods and beverages sector

Example of large-scale starch plant from cassava (maize, millet and sorghum, with variations)
Raw materials: 100t/24h cassava roots (moisture content 65% water)
Product: 25t/24h commercial starch (moisture content 12-13% water) and
17t/24h wet fibre pig feed (moisture content 70% water)

Cost of equipment, about US$ 2 millions
Additional requirements:
Space: 250 sq.m production area, 200 sq.m storage area, 100 sq.m. facilities – total – 450 sq.m
Manpower: 5 managers, 3 engineers, 3 quality control, 6 skilled workers, 25 unskilled workers, 3 fitters, 3 electricians – a total of 48
Power and utilities: 200 kW Electricity, 20 cu.m/h process water, 25 cu.m/h Wash water, 17t/h steam, 5 kg/h sulfur
The costs and requirements would reduce for medium and small-scale factories

Example of large scale legume processing plant
Cost of equipment = US$ 370,000 - 400,000 excluding packaging machinery and bulk handling equipment, silos, hoppers e.t.c.
Raw materials: about 8,000 kg lentils per 8 hrs.
Manpower: 2 shift workers , 2 store keepers
Plant site requirements: 20 x 10 m, 10 m high, 2 floors, total area of about 600m^2

The Investment Incentives

Investment incentives are covered under the Income Tax Act 1997. The Uganda Revenue Authority as part of the taxation system administers these incentives. The investment incentives are indicated in the following tables:

Table 4: Capital Allowances

Initial allowances on plant and machinery located in Kampala, Entebbe, Namanve, Jinja and Njeru	50%
Initial allowances on plant and machinery located outside Kampala, Entebbe, Namanve, Jinja and Njeru	75%
Start up costs spread over the first 4 years	25%
Scientific research expenditure	100%
Training expenditure	100%
Mineral exploration expenditure	100%

Table 5. Deductible annual allowances

Depreciable assets specified in 4 classes under declining balance method		
Class 1	Computers and data handing equipment	40%
Class 2	Automobiles, construction and earth moving equipment	35%
Class 3	Buses, goods vehicles, tractors trailers, plant & Machinery for farming, Manufacturing and Mining	30%
Class 4	Railroad cars locomotives, vessels, office furniture, fixtures etc.	20%

Table 6. Other annual depreciation allowances

Industrial buildings, hotels and hospitals	5%
Farming general farm works (declining balance depreciation)	20%

Uganda has a priority investment areas list. Investments into priority areas indicated in table 9 are accorded additional benefits.

Table 7: Priority Investment Areas

Crop processing	Storage
Education	Forestry and processing of forest products
Fish processing	Steal industry
Electronics	Cotton and textiles
Floriculture	Edible oil
Metal and Metal products	Mining industry
Construction and building industry	Ceramics industry
Energy	Manufacture of industrial spare-parts
Tourism industry	Meat processing
Manufacture of building materials industry	Iron and steel
Transport and communications	Real estate development industry
Pharmaceutical industry	Packaging industry
Dairy and Dairy products	Financial services
High-technology industry	Health care
	Fruits and vegetables

Other incentives

In addition to the incentives listed in tables 14-6, Uganda offers the following:

- ***Import Duty Exemptions***. Apply to motor vehicles, personal effects and plant and machinery.
- **Duty drawback facilities**. Allows exporters to claim taxes on inputs used to manufacture exportable products.
- **Corporation tax**. With the exception of mining there is a uniform corporation tax rate of 30%, which allows the "carry forward of losses". Practically, this means, profits are not taxable until, previous years' losses are fully covered.

Investment protection

Investment guarantees:-Uganda is a member of the Multilateral Investment Guarantee Agency (MIGA) of the World Bank, which can guarantee non-commercial risks.

Externalisation of funds:- foreign investors are allowed to externalise funds for:

- Loan repayment in a foreign country
- Payment of financial earnings to foreign personnel
- Payment of royalties or fees
- Payment of profits or proceeds on disposal of assets.

Protection against compulsory acquisition:- Compulsory acquisition can only be made in accordance with the Constitution of Uganda. Should compulsory acquisition take place, the investor must be compensated within 12 months from the date of acquisition, based on fair market value of the enterprise.

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Useful Contacts

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Uganda Export Promotion Board	Conrad Plaza Entebbe Road Kampala	256-041-259779/230233	256-041-259779	UEPC@Mukla.gn.apc.org
Uganda National Bureau of Standards	Plot M217 Nakawa Industrial Area P.O. Box 6329 Kampala	256-041-222367/9, 236606	256-41-286123	unbs@starcom.co.ug
Private sector Foundation (PSF)	Plot 3 Kintu road P. O. Box 7683 Kampala	256-041-342163 230956	256-041-259109	Prisf@starcom.co.ug
Uganda National Chamber of Commerce and	P.O. Box 3809 Kampala	256-041-258791/3	256-041-258793	

Industry				
Uganda Coffee development Authority (UCDA)	Coffee House P. O. Box 7267 Kampala	256-041-233073, 257139	256-041-256994, 233064	Ucda@informa.com
Uganda Manufacturers Association (UMA)	P.O. Box 6966 Kampala	256-041-221034/220285	256-041-220285	
Center For Trade Promotion Ltd.	P.O. Box 8219 Kampala	256-041-242962	256-041-245597	
Uganda Coffee Trade Federation	P.O. Box 21679	256-41-343678	256-41-343692	uctf@ugandacoffee.com
Rwenzori Highlands Tea Co. Ltd.	Crusader House P.O. Box 7790, Kampala, Uganda.	Tel: 256-41-251593	256-41-251653	cdeat@infocom.co.ug
Uganda Tea Corporation (UTC)	Kasuku Tea estate (Lugazi) Lugazi 13/2, first St. Kampala	256-44-48245/-230698	256-44-48230	

Appendix 1. COMESA member states and population by country (Millions)

Member State	1991	1992	1993	1994	1995	1996	1997	1998 (Proj.)	1999 (Est.)	2000 (Est.)
Angola	9.5	9.9	10.3	10.7	11.1	11.5	11.6	11.9	12.3	12.6
Burundi	5.7	5.9	6.0	6.0	6.1	6.2	6.4	6.6	6.8	6.9
Comoro	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.72	0.74
Congo (D.R)	38.7	39.9	41.2	42.6	43.9	45.3	48.0	49.4	50.9	52.4
Djibouti	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.62	0.63
Egypt	57.7	59.0	60.3	61.6	62.9	64.2	64.5	65.8	67.1	68.4
Eritrea	..	3.3	3.4	3.4	3.5	3.6	3.8	3.9	4.0	4.1
Ethiopia	48.9	50.3	51.9	53.4	54.5	56.7	60.1	61.9	63.8	65.7
Kenya	24.5	25.9	26.4	27.3	28.3	29.1	29.9	30.6	31.4	32.1
Madagascar	13.0	13.4	13.9	14.3	14.8	15.2	15.8	16.3	16.8	17.4
Malawi	9.8	10.2	10.5	10.8	11.1	11.4	11.7	12.0	12.3	12.6
Mauritius	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.11	1.12
Namibia	1.4	1.4	1.5	1.5	1.5	1.6	1.6	1.6	1.64	1.7
Rwanda	7.2	7.4	7.6	7.8	8.0	8.2	8.4	8.7	8.9	9.2
Seychelles	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.10	0.10
Sudan	25.3	25.9	26.6	27.4	28.1	28.9	29.7	30.4	31.1	31.8
Swaziland	0.8	0.8	0.8	0.8	0.9	0.9	1.0	1.0	1.0	1.0
Tanzania	26.4	27.2	28.0	28.9	29.7	30.5	31.5	32.4	33.3	…*
Uganda	18.6	19.3	19.9	20.6	21.3	22.0	22.6	23.3	24.0	24.7
Zambia	8.4	8.7	8.9	9.2	9.5	9.7	9.9	10.1	10.4	10.6
Zimbabwe	10.1	10.5	10.7	11.0	11.3	11.5	11.7	11.9	12.1	12.4
Total	307.96	321.23	330.28	339.64	348.70	358.98	370.70	380.43	390.39	366.29

Source: COMESA Annual Report 1999.

* Tanzania pulled out of COMESA in 2000

Appendix 2. Tariff Position Towards COMESA FTA (March 2003)

Country	Tariff Position
Djibouti Egypt Kenya Madagascar Malawi Mauritius Sudan Zambia Zimbabwe	Duty-free trade. No duties or charges of equivalent effect on all goods originating from these countries.
Burundi Rwanda Ethiopia	Burundi, Rwanda and Ethiopia to join by end of January, 2004. Rwanda reduced tariff by 90% since January 2003 while Ethiopia reduced by same rate since October 2002. Burundi reduced by 60%.
Comoros Eritrea Uganda	Had reduced tariffs by 80%, so 20% of the general (MFN[4]) duty rates
Angola, Congo (DR), Seychelles	Full MFN rates.
Namibia Swaziland	Full MFN rates until the derogation lapses

Source: **COMESA web site and Report of Finance Ministers' Meeting in Khartoum March, 2003**

[4] MFN means Most Favoured Nations

Appendix 3 - Black Tea: Actual and Projected Export				
Countries/Regions	**E X P O R T S**			
	Actual	**Projected**	**Growth rate**	**Growth rate**
	2000	**2010**	**1990 – 2000**	**2000/2010**
	Thousand Metric Tons		**%**	**%**
WORLD	**1 008**	**1 139**	**0.0**	**1.1**
Africa				
Kenya	208	**275**	1.9	2.6
Malawi	38	38	-0.6	0.0
Uganda	26	38	16.8	3.5
Tanzania	22	28	3.8	2.2
Asia				
Sri Lanka	281	293	2.5	0.4
India	198	151	-0.4	-2.4
Indonesia	98	87	-1.0	-1.1
China	28	21	-10.1	-2.6
Bangladesh	18	17	-3.6	-0.5

Appendix 4 - Black Tea: Actual and Projected Consumption				
Countries/Regions	**Actual**	**Projected**	**Growth rate**	
	2000	**2010**	**1990 - 2000**	**2000 - 2010**
	Thousand Metric Tons		**%**	**%**
WORLD 1/	**2 214**	**2 413**	**2.2**	**0.8**
Net Imports	**1 077**	**1 146**	**2.5**	**0.6**
Asia				
Pakistan	109	150	0.7	2.9
Japan	18	22	2.2	1.8
Europe				
U.K.	134	126	-0.6	-0.6
Germany	10	22	-3.4	7.4
France	9	7	-2.2	**-2.3**
Netherlands	15	17	2.2	1.1
Ireland	11	11	-0.4	0.0
Italy	4	4	0.2	0.0
USSR/CIS	224	315	2.7	3.1
North America				
USA	81	94	0.4	1.4
Canada	15	19	1.0	2.2
Oceania				
Australia	14	11	-1.5	-2.2
Domestic Consumption 2/	**1 137**	**1 267**	**1.9**	**1.0**

Africa				
Uganda	3	1	3.9	-9.5
Tanzania	1	1	0.0	0.0
Malawi	4	4	0.0	0.2
Kenya	28	29	0.2	0.3
Asia				
India	617	919	1.8	3.7
Indonesia	33	51	6.1	4.0
China	37	31	-1.1	-1.6
Bangladesh	36	45	2.4	2.0
Sri Lanka	24	36	2.6	3.8

1/ Net-Imports plus Domestic Consumption
2/ Production minus Export