Embassy of Sweden
Kampala

UGANDA-SWEDEN TRADE REPORT

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Written by:

Andrew Byaruhanga
Trade Promotion and Communications Officer
Embassy of Sweden
Kampala – Uganda
+256 782 161541
andrew.byaruhanga@gov.se

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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, 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.

For any more information, please contact;

Section for Political Affairs, Trade Promotion and Information
Embassy of Sweden in Uganda
Plot 24 Lumumba Avenue
P.O. Box 22669, Kampala, Uganda
Tel: **+256 (0) 417 700 800**
Email: ambassaden.kampala@gov.se

2.0 Country Outline

Land Area:	197,323 square kilometres1
Population	Total projected population of 41.6 million for 2020 with a population growth rate of 3%
Location:	Uganda borders Kenya to the East, South Sudan to the North, the Democratic 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 Ababa 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 38 billion [2](current market prices 2019/20)
GDP Per Capita	Approximately USD 910 per annum [3](nominal GDP per capita)
GDP Growth Rate	2.9% for FY 2019/2020
Inflation	3.8% for CY 2020
Currency	The Uganda Shilling (UGX)
US$ Exchange Rate	US$ 1 = UGX 3,650 (at end of CY 2020)

[1] Uganda Statistical Abstract 2020
[2] BoU Statistics 2020
[3] BoU Statistics 2020

3.0 Political Overview

President Yoweri Museveni has been the head of state of Uganda since 1986 and was reelected in January 2021 as the President of the Republic of Uganda under 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, which allowed him to stand for a sixth term in office.

Uganda has been relatively stable in the recent past with surges of violence experienced mostly around the presidential and parliamentary elections. The 2021 election was no exception, with extensive violence, extrajudicial detentions and intimidations. 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 been heightened and have managed to foil several terror plots in the country and no terror act has been successful since then.

Since the 2020-2021 election period, there has been increased controls by the government of the internet, especially the use of social media. The voting period was carried out during a government-imposed internet blackout for several days and social media channels were blocked for several weeks in order to control the spread of information. To date, the Government has maintained the block of Facebook after accusing the platform of interference in the political discourse after several pro-government accounts were blocked in the run-up to the 2021 elections.

There has been increasing concern that the government has been using the COVID 19 guidelines to stifle freedom of expression, especially by the opposition and civil society activists. Political gatherings have been broken up and arrests have been made. Similar gatherings by the ruling party were not stopped, which brought to question the fairness of the election period.

Uganda's prolonged border closure with Rwanda since early 2019 has also affected Uganda's trade with and through Rwanda, with discussions between the neighbors not leading to any lasting solution yet.

Corruption by public officials remains a key obstacle for the Uganda's development. Measures have been taken to eradicate corruption, but the problem persists. 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. The country also attracts some talent from abroad thanks to Makerere University – the highest ranked university in Africa outside of South Africa.

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 4.9 percent[4] over the last 5 years and inflation during the 2020 CY stands at 3.8 percent (up from 2.9 percent in 2019, mostly due to the COVID19 pandemic) 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 1.3 billion[5] which reduced from over USD 1.4 billion in 2019, due to the challenges faced by the COVID 19 pandemic. Gold is still Uganda's biggest export earner with the commodity earning USD 1.8 billion in foreign exchange in 2020 compared to coffee which brings in just over USD 500 million. 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 population growth rates in the world, the purchasing power of the ordinary Ugandan remains quite low. With an annual per capita income of approximately USD 910, the population therefore earns only slightly above USD 2 a day. Most of the market in Uganda is centred around its capital Kampala, which has a population of slightly less than 3 million people, of which only about 35 percent are gainfully employed. This 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] Bank of Uganda Statistics
[5] World Bank Migration and Remittances Data

4.1 Agriculture

Agriculture is the main livelihood for Ugandans employing over 70 percent of the working population. It contributes to approximately 22 percent of the country's GDP and is 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 agricultural export product with approximately 329 400 tonnes of coffee exported in 2020 worth over USD 515 million, followed by fish worth over USD 127 million and maize at USD 92 million in 2020. The value of Ugandan exports was affected by the COVID 19 pandemic, with the most affected being informal cross border trade. However, thanks to a trade-friendly border policy aiming at minimizing the negative effects for the economy, exports have not been reduced by as much as feared. The agricultural sector 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 only a minor interest in the sector. Despite this, challenges remained between the Ugandan government and the oil companies over taxation arrears, which have since been resolved. In April 2021, the government of Uganda signed the Host Government Agreement between Uganda and the East Africa Crude Oil Pipeline (EACOP) Company with the President of Tanzania present. It was agreed that the government of Tanzania shall finalize the agreements on their side and that the EACOP company shall launch the pipeline project and award the Engineering Procurement and Construction (EPC) contracts as the next step. Final Investment Decision is now expected from the oil companies by mid-2021 with commercial production extended to 2025 approximately. A consortium of American, South African 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 2025 after considerable delays. Changes in global petroleum use patterns and reducing oil prices stoke fears of the whole project becoming considerably less profitable than originally projected.

4.3 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. 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%. During the 2021 election period, the Ugandan government banned internet for several days and social media for several weeks, similar the previous election period in 2016. These shutdowns have affected businesses that depend on the Internet. Facebook remains shut down throughout the country, affecting small businesses and communication mostly among the youth.

4.4 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, particularly in rural areas far from Kampala, and projects in the railway sector have also been commissioned. The country's only international airport (Entebbe, 40 km from Kampala) 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. The country's most heavily trafficked road, from Jinja to Kampala, is in heavy need of renovation but the government is yet to gather the funds for the construction of a new expressway. 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 have been interested in providing a solution that will also create clean energy for the city, but challenges still remain regarding guaranteeing the investment by the municipality.

4.5 Energy

Since the commissioning of the Isimba Hydropower project in March 2019, Uganda 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 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 – expected to be completed in 2021) 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 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. Several reports conclude that Ugandan schoolchildren are dropping in literacy and other skills. There is 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.

Uganda has less badly been hit by COVID-19 than most other countries in the region, thanks to an early lockdown which remained for four months before it was gradually released. However, the effects of the lockdown itself in terms of reduced access to health services, domestic violence and teenage pregnancies are considered significant. It is widely reported that many children are not coming back to schools after re-opening of physical classes.

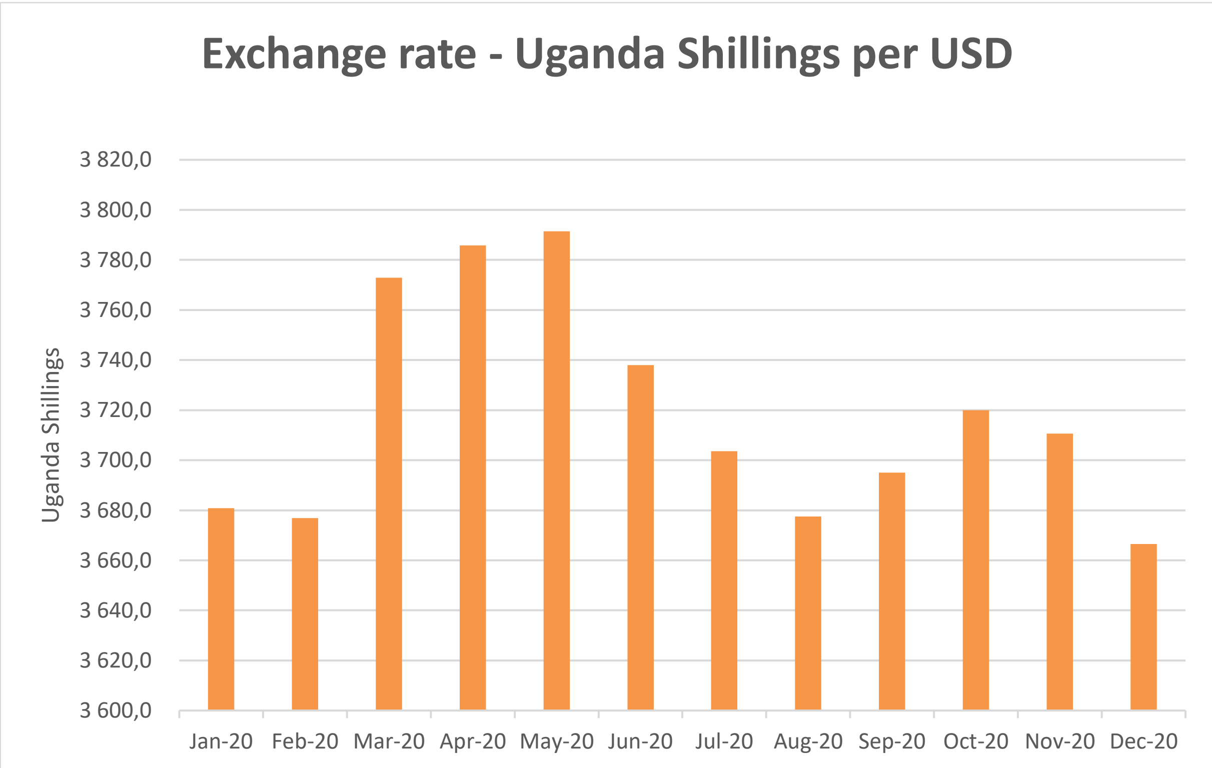
5.0 Exchange Rates

From January 2020 to December 2020, the Uganda Shilling first lost then regained its value against the United States Dollar. The average exchange rate for the year 2020 was Ushs 3718 while the average exchange rate for the year 2019 was Ushs 3704. This shows that the shilling has remained stable over the last 2 years which is positive for businesses involved in international trade.

As shown in the figure below, the Uganda shilling lost value from March 2020 to May 2020. This was mainly due the effects of the COVID19 pandemic, which initially affected international trade negatively. With the demand for exports declining in those months, Uganda earned less foreign exchange thus reducing the value of the Uganda shilling. It is seen picking up again later in the year, as exports increased back to pre-COVID19 levels.

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 2020.

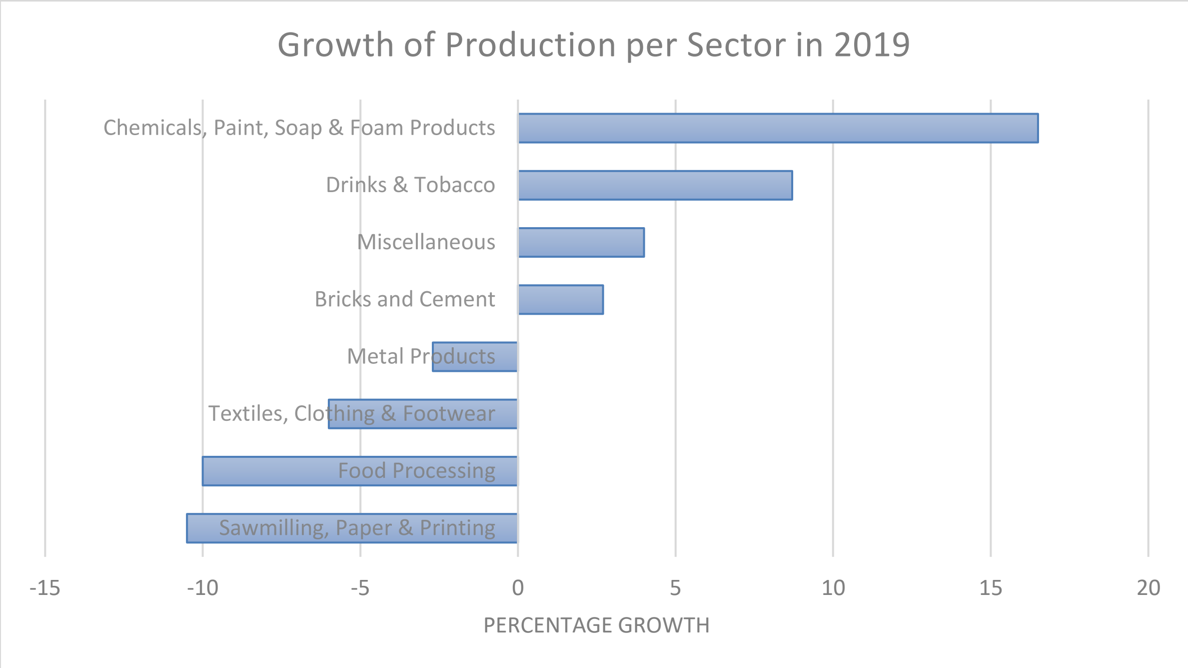
The year 2021 being an election year, it is expected that investments into the country shall reduce with many businesses waiting for the outcome of the election. This may negatively impact the value and demand for the Uganda shilling.



Source: Bank of Uganda; Key macroeconomic indicators, December 2020

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 33 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 0.1 percent in the year 2019 down from 13.3 percent in 2018 due to significant decrease in the food processing and sawmilling, paper and printing sectors. 2019 also saw an increase in the drinks and tobacco sector (8.7% up from 7.9% in 2018) and the chemicals sector (16.5% up from 0% in 2018). This decrease was caused mainly by high off-season rainfall which made farmers plant early and led to the loss of harvest due to flooding and shorter rain periods, mostly experienced in Eastern Uganda. The official statistics for 2020 have not been released yet, but it is expected that the COVID19 lockdown and reduced income levels of consumers should have reduced manufacturing levels significantly over the year.

The service sector is largely dominated by the hospitality sector through hotels and restaurants and the financial sector as well. The sector grew by 4.1% in the FY 2019/20 as compared to 8.1% in the previous financial year because of the COVID-19 lockdown.

7.0 Trade Agreements between the EU and the EAC

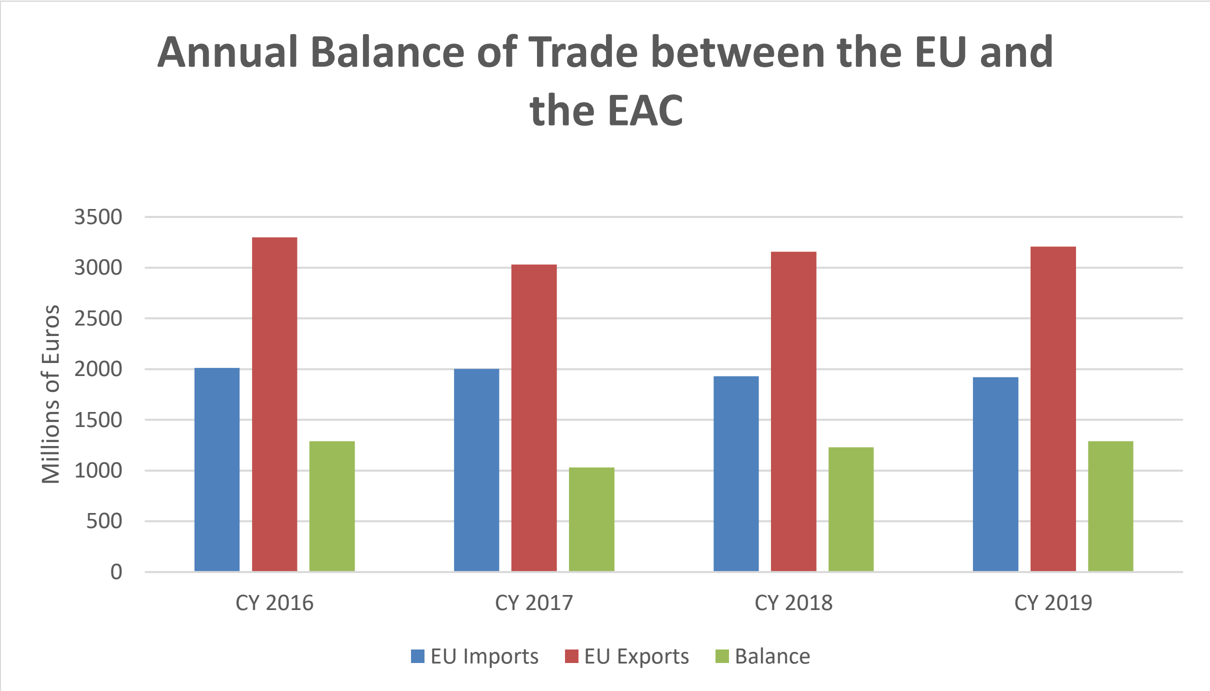
The East African Community is a common market, which includes Uganda, Rwanda, Kenya, Tanzania, Burundi, and South Sudan (Somalia and DR Congo have applied for membership and are likely to join soon), is a region with high potential for trade. In recent years, a number of trade irritants have troubled the bloc, most significantly between Rwanda and Uganda but also between Uganda and its coastal neighbors (and major export markets) Kenya and Tanzania. The EAC finalised its 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 since 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.

In 2021, the East African Community summit agreed to allow member states to ratify the EPA along the bloc’s principles of variable geometry, which allows each member state to ratify the agreement separately and in their own time. Uganda is yet to state its own plans with regard to the EAC decision on the EPA.

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. It is in line with the EAC Common External Tariff and 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 the 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. Trade between the EU and the EAC was affected by the COVID19 lockdown, however, the statistics for 2020 are not yet available now.



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.

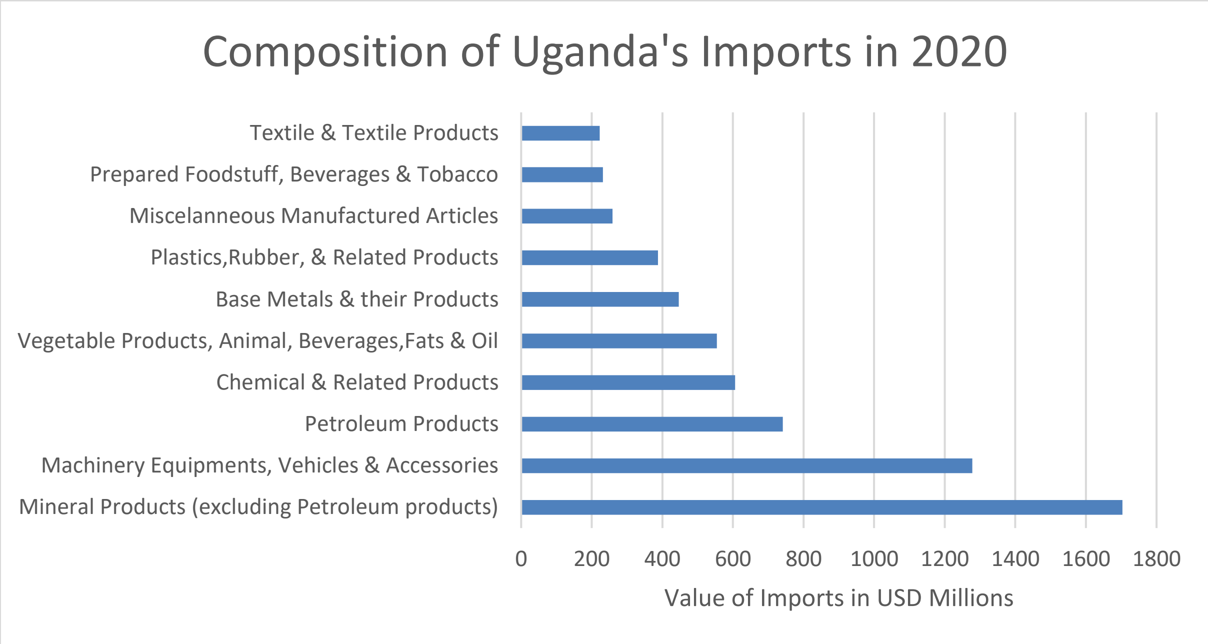
Uganda signed the COMESA Free Trade Area (FTA) agreement in the end of 2012. The FTA specified that an import duty of 6 percent should be charged for (most) goods between fellow COMESA partner states. As part of the EAC, Uganda is also enjoying market access into the EU based on the initiated FEBA of 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. The most recent EAC summit has agreed to allow member states to ratify the EPA along the bloc's principles of variable geometry, which allows each member state to ratify the agreement separately and in their own time.

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, milk and more recently maize. Due to some political disagreements between Uganda and Rwanda, the border posts at Katuna and Chanika were closed in early 2019 and remain closed to date (March 2021). An advisory remains for Rwandese citizens not to travel to Uganda and goods are only designated to cross the border point into Rwanda at Mirama Hills. 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.

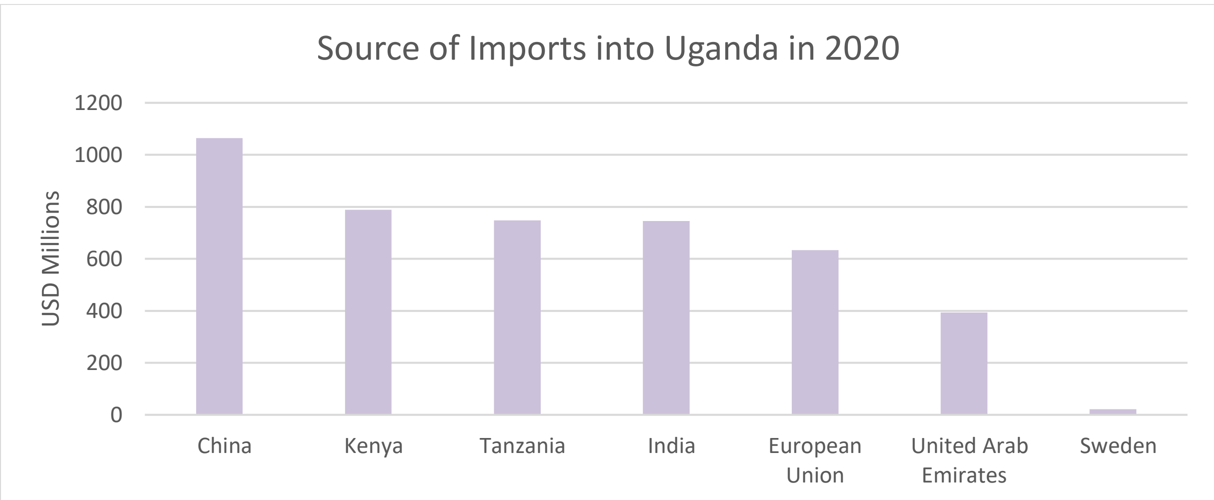
9.0 Uganda's Trade Statistics

9.1 Imports



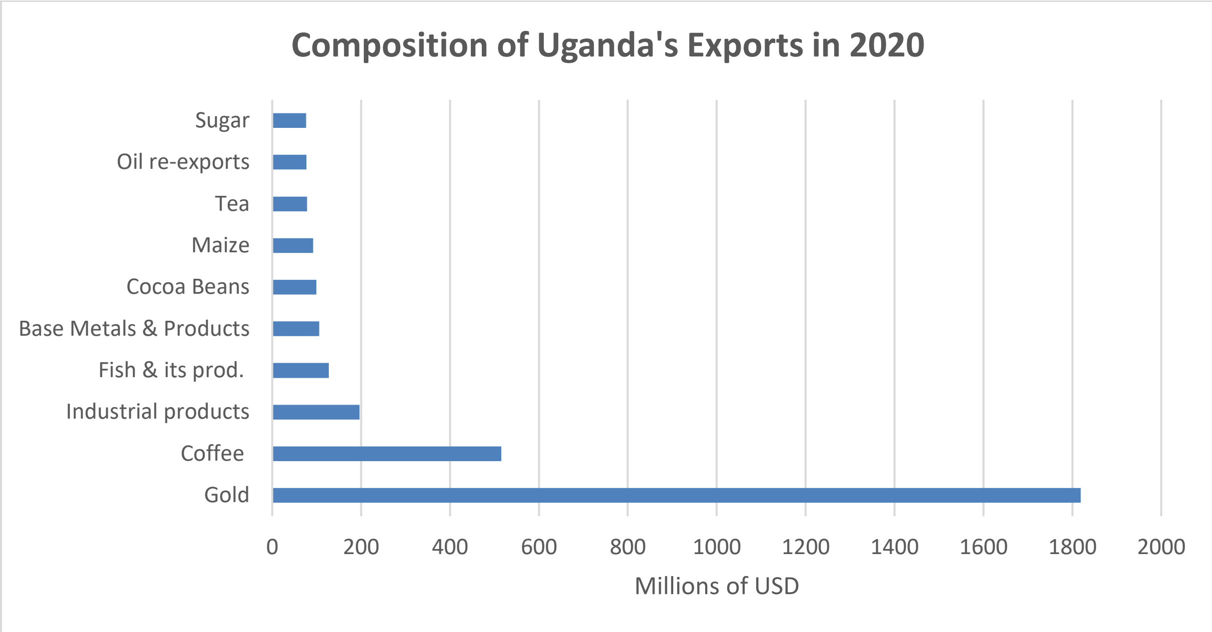
Source: Bank of Uganda Statistics

Uganda as a country heavily relies on imported products and raw materials. In 2020, Uganda's biggest import in terms of value was Mineral Products (USD 1.7 billion) followed by Machinery and vehicles (US$ 1.2 billion), Petroleum products (US$ 741 million), Chemicals and related products (US$ 606 million), Animal and vegetable products (US$ 555 million) and Base metals (US$ 447 million) to mention but a few. Uganda's imports mainly come from China, Kenya, Tanzania, India, the EU and United Arab Emirates. The EU exported USD 634 million worth of products to Uganda with Sweden accounting for USD 22 million.



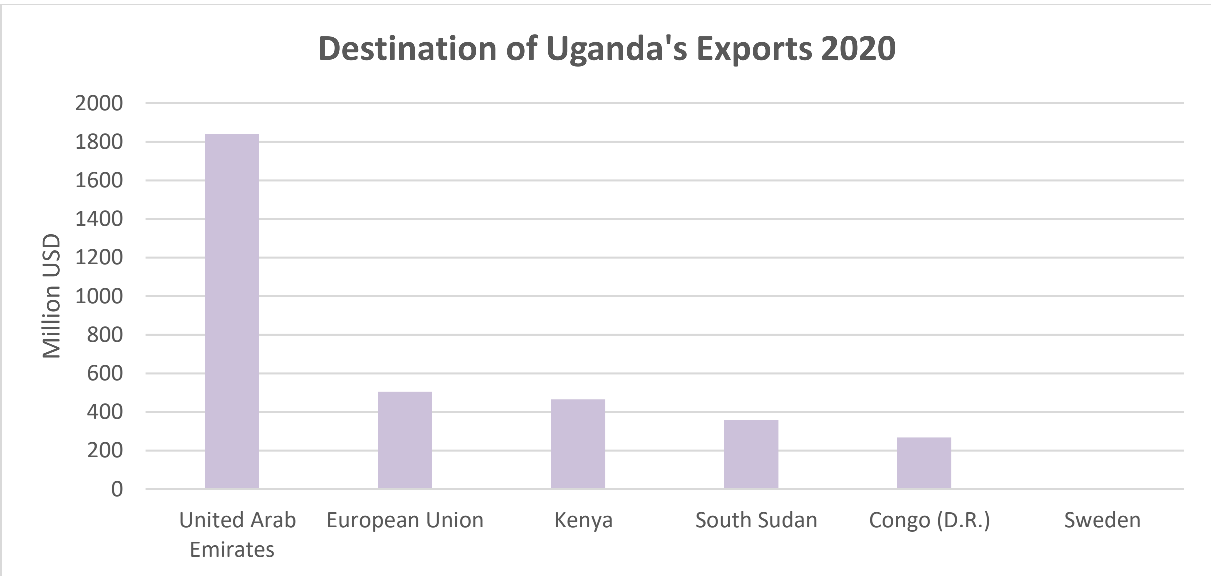
Source: Bank of Uganda Statistics 2020

9.2 Exports



Source: Bank of Uganda Statistics

Uganda as a country mainly exports agricultural commodities. Gold has become Uganda's biggest export with a value of over USD 1 800 million. This seems to be increasing exponentially over the years. The second biggest export as a country in the 2020 CY remains coffee which amounted to over 438 million USD in foreign revenue followed by industrial products at 196 million USD. Exports in Uganda grew at -2 percent due to the effects COVID19 had on demand in in receiving countries and restrictions on work and travel. Uganda's major export partners include UAE, EU, Kenya, South Sudan and the Democratic Republic of Congo. The EU accounts for 505 million USD with Sweden at USD 2,76 million.

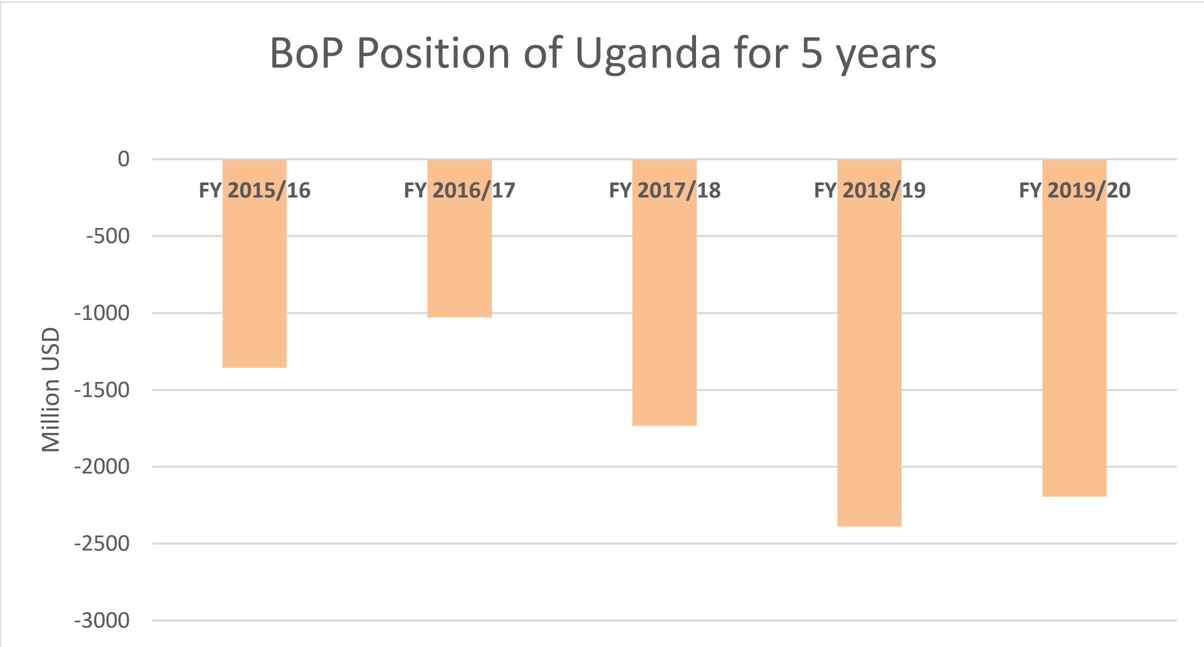


Source: Bank of Uganda Statistics

9.3 Balance of Payments

Uganda's balance of payments (BOP) position is relatively weak following the country's 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. In the financial year 2019/20, there was a slight improvement in Uganda's BoP position, mostly attributed to the increase in Uganda's export of gold and the decreased demand of imported goods due to the restrictions around the COVID19 pandemic.

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 2020

10.0 Trade with Sweden

Uganda has already been importing several key products from Sweden. These products include Cereal; Chemicals; Paper; Telecommunications equipment; Electrical apparatus; Automatic data processing machines; Scientific controlling equipment; Machinery; and Transport equipment. Key priority Swedish products for the Ugandan market include software for electrical systems, medical equipment and pharmaceuticals among others. Swedish companies have also shown a strong interest regarding the technologies around renewable energy, clean cooking and e-learning. 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. The oil exploration in north-west Uganda, due to be commenced in early 2025, is already indirectly providing some business opportunities for Swedish companies.

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 2019 and 2020. It can be noted that in 2020, Swedish exports to Uganda grew by 18 percent and Ugandan exports to Sweden grew by 13 percent, despite the challenges COVID19 had on international trade. Sweden has a trade surplus with Uganda of approximately 39 million SEK.

	Item	CY 2019 (in millions of SEK)	CY 2020 (in millions of SEK)	%age 2019	%age 2020
	EXPORTS FROM SWEDEN TO UGANDA				
1	Cereal, Malt Flour	21	20	21	17
2	Chemicals and related products	31	20	31	17
3	Paper and paperboard	21	19	21	16
4	Telecommunications Equipment and parts	7.6	19	7.7	16
5	Electrical apparatus for switching or protecting electrical	0.5	9.4	0.5	8
6	Automatic data-processing machines	3.1	9.3	3.2	7.9
7	Professional, scientific and controlling instruments	1.6	3.7	1.6	3.1
8	Non-electrical machinery, tools and mechanical apparatus	2.4	2.4	2.4	2
9	Apparatus for brewing industries	2.4	2.2	2.4	1.9
10	Transport equipment	0.2	1.5	0.2	1.3
	EXPORTS FROM UGANDA TO SWEDEN				
1	Coffee	64	70	93	90
2	Manufactured products	0.2	0.0	0.3	0.1

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 signs and ratifies the Economic Partnership Agreement with the European Union. During recent years, the number of tariffs introduced by EAC countries, in breach with EAC rules, has increased considerably. A number of trade conflicts involving sugar, maize and other staples have arisen as countries are trying to protect producers from competition from abroad.

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 not only 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 2020 Corruption Perceptions Index ranks Uganda 142nd out of 180 countries and territories, with a score of 27 out of 100, indicating a perception of widespread and endemic corruption. The trend in recent years reflects a slight improvement in the ranking, but more efforts are definitely needed – included from the highest levels of government – to produce a real shift. Low pay within the justice, law and order sector facilitates corruption and provides a challenge especially for businesses seeking redress.

Inadequacies in Uganda’s efforts to tackle money laundering and terrorist financing have led to the country being put on the “FATF grey list”, making international banking activities with Uganda more difficult. Swedish companies regularly report difficulties in transferring money from Swedish bank accounts to Uganda. Small-scale and private transfers are now possible, at a cost, through services such as TransferWise.

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, with a high rate of unpredictability. 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.

The same can be said about Ugandan companies whose due diligence, undertaken by the Embassy, has suggested an intention to defraud their Swedish partners. 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 soon.

e) Cost of contracts:

The Ugandan market and Ugandans at large are considered to be very price sensitive in terms of consumption due to limited financing availability. 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 negotiations for the first project financed by EKN and SEK in Uganda are about to be concluded (as of February 2021). 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-national corporations have 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 their products more expensive to the local Ugandan companies, and ultimately to consumers. 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 and state-owned entities takes a lot of time to pay their 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.

i) **COVID 19 Pandemic**
The COVID 19 pandemic that started in late 2019 has affected international trade globally. It has led to reduced demand by consumers and has increased the requirements and costs for

transporting goods between countries. At some point during the lockdown implemented in Uganda, trucks at the Kenyan and Tanzanian sides of the borders were queuing for days and lining the roads for many kilometers as they wait to undergo testing for their cargo to be allowed across the border. These delays led to higher costs being incurred and slowed down international trade. This barrier is expected to reduce as the vaccines are rolled out with an expectation of normalcy hopefully by the end of 2021.

12.0 Opportunities

Uganda has an attractive investment climate with the country being ranked as the 14th most free economy in sub-Saharan Africa by the 2021 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 also rose in the World Bank Ease of Doing Business ranking from place 127 to 116, largely due to improved access to electricity.

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 40 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 country boasts of the highest-ranked university in Africa outside of South Africa, Makerere University.

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.

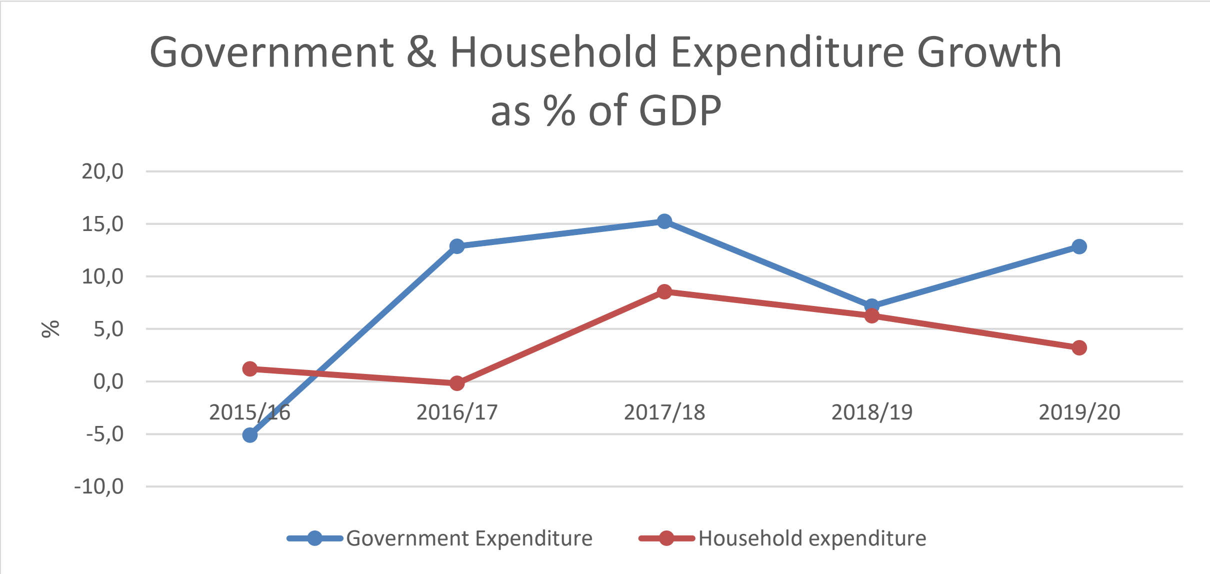
Swedish companies operating in Uganda have the opportunity to join several business associations that advocate for a better trade and investment climate. The Nordic business community set up the Nordic Business Association (NBA) which comprises of over 50 Nordic businesses in Uganda. Quarterly meetings 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 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 in collaboration with PSFU has created the Sustainable Businesses for Uganda (SB4U) platform for companies to assist them in doing business in Uganda.

The Swedish-East African Chamber of Commerce (SWEACC) regularly arranges workshops and symposiums focusing on collaboration and business opportunities throughout the region in areas such as sustainable urban transports and waste-to-energy.

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

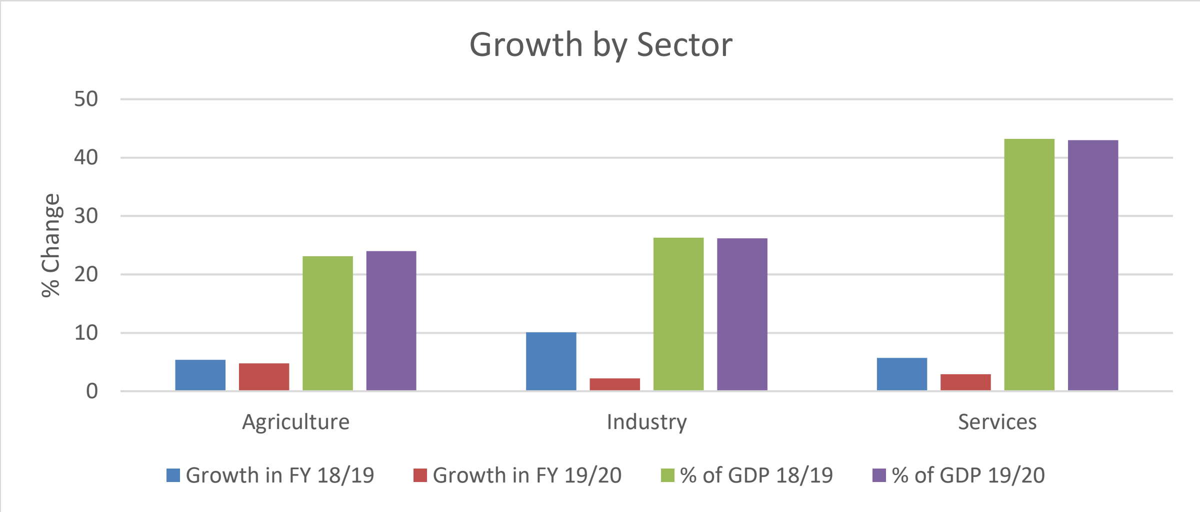
In Uganda, the biggest purchaser of goods and services is the government. Over the years, the national budget for the country has increased phenomenally with the national budget in 2016 amounting to a total of USD 6.2 billion which has more than doubled over a 5-year period to USD 12.4 billion in 2020. It can be noted, however, that the biggest bulk of the budget planned for 2021/22 FY shall go to servicing both domestic and international debt (approximately 45 percent).

The increase in the national budget corresponds with the increase of government consumption expenditure. 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 15 percent in 2017-18 to a stable 13 percent in the 2019/20 financial year, while there has been an increase in the national budget of up to 100 percent over the same period. The slower growth of consumption expenditure relative to the national budget can be attributed to the increase in the country's debt servicing as opposed to consumption expenditure.

The growth of household consumption expenditure has been considerable with a significant reduction in expenditure only occurring 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 910.

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.

That said, there has been a decline in growth of the agricultural sector in the FY 2019/20, mostly due to the decreased demand and the reduced export of agricultural produce brought on by the COVID 19 pandemic. This affected mostly the export of cash crops which is a big driver of the economy in Uganda. This was exacerbated by the increased and unpredictable rainfall that was received at the start of 2020 combined with the emergence of locusts in East Africa, that affected the planting season in early 2020. Despite this, the contribution of agriculture to Uganda's GDP remains stable at approximately 23 percent. As a major exporter of coffee, tea and fish, the sector has remained relatively robust throughout the COVID-19 crisis and is now rebounding.

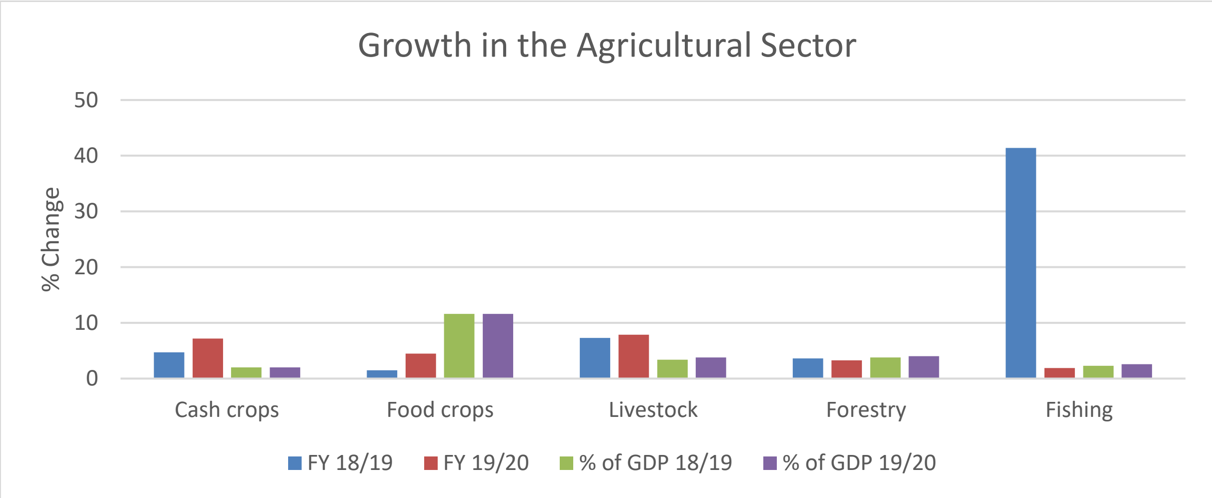
Similar to the agricultural sector, Uganda's industry sector has experienced contracted growth mostly brought about by the reduced demand due to the COVID 19 pandemic. With growth of 2.2 percent in 2019/20 as compared to FY 2018/19 where the sector grew by over 10 percent, the difference is significant. Closure of mostly small and medium non-essential businesses during the pandemic led to laying off of staff and production capacity dropped significantly. The trend is expected to reverse as a semblance of normalcy returns to the country. The industry sector maintained its contribution to GDP of approximately 26 percent despite the reduction in growth.

The services sector, was hardest hit by the COVID 19 pandemic, with the closure of many businesses in the hospitality sector. Reduced growth from 5.9% in FY 2018/19 to 2.9% in FY 2019/20 was registered. The sector is expected to recover post-COVID and continue with strong gains as has been the trend over the last 10 years.

Opportunities for the private sector are expected to increase, especially since the economy managed to grow despite the challenges brought about by the pandemic. The past strength & size of the services sector shows that services remain a core area of growth and stability within Uganda's economy.

Although it is difficult to separate political instability from COVID-19 effects, it can be assumed that the political insecurity and violence preceding the 2021 general elections have had a negative effect on foreign direct investments into Uganda.

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 strong increase 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 2019-2020, cash crops have been seen to grow significantly from a growth of 4,7 percent to 7,2 percent, despite the emergence of the COVID 19 pandemic in the same period.

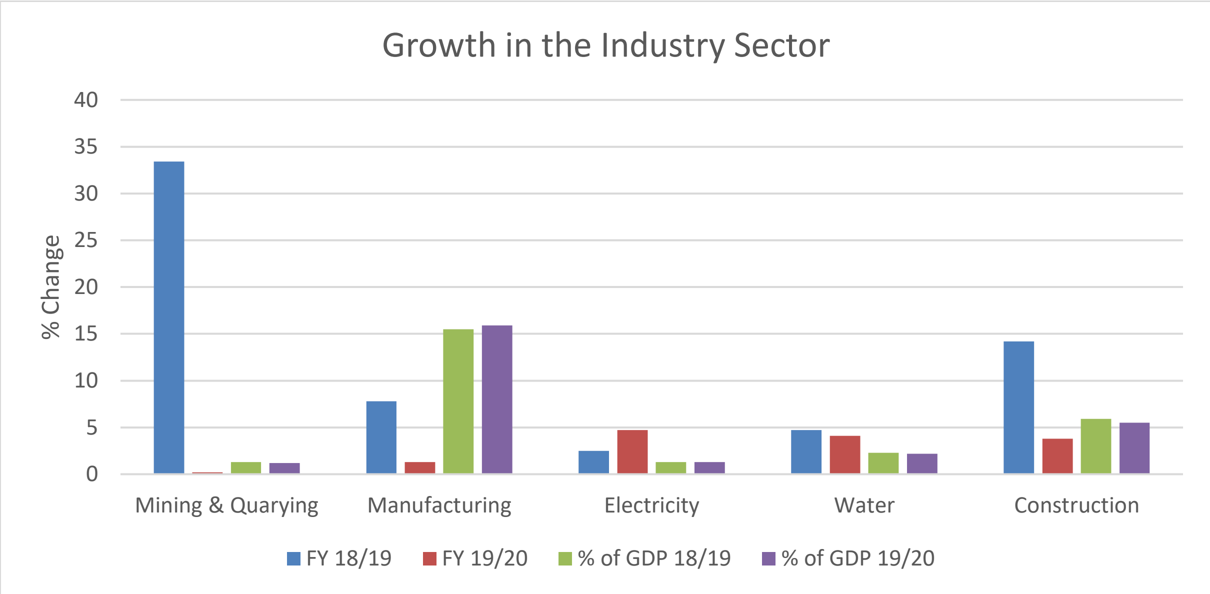
The growth in the production of food crops has risen from 1.5 percent to 4.5 percent in the FY 2019/20. With its contribution to GDP remaining strong at 11.6 percent, the production of food crops in country is still significant with increased exports of cereals such as maize to the Kenya, maintaining 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 remained stable over the same period. The same can be said for Uganda's forestry outputs. Fisheries, once Uganda's largest export, have come from a high of 41 percent growth in 2018/19 FY to 1.9 percent growth in FY 2019/20.

This irregular pattern is due to the negative growth if the sector in previous years that reemerged in 2018 due to the creation of commercial fish farms as opposed to overfishing Uganda's lakes and rivers.

Strong opportunities remain in the country's agricultural sector, especially in providing technologies for maximization of output through value addition. Agriculture remains 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

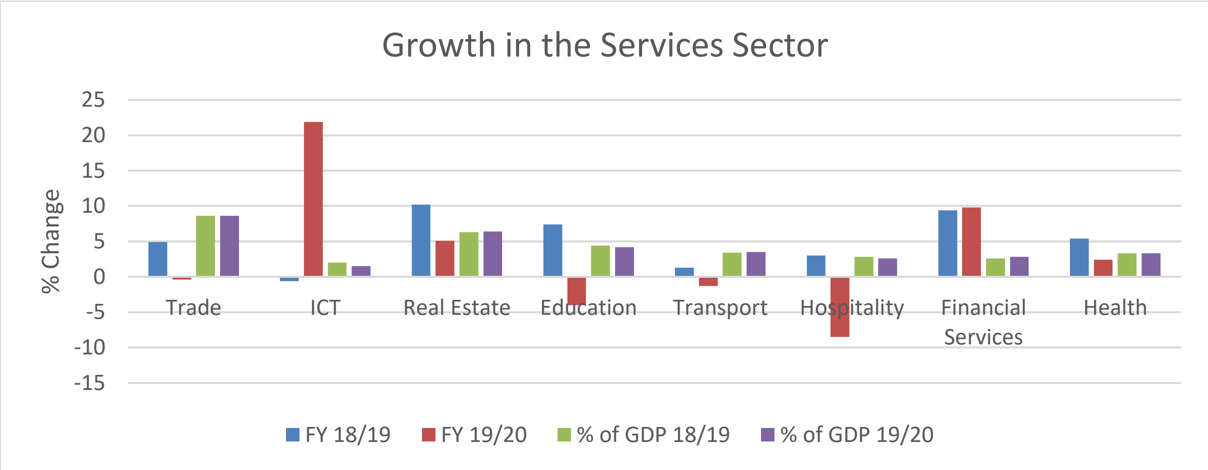
The industry sector in Uganda is categorized into mining and quarrying, manufacturing, production of electricity, water supply and the construction subsectors. Uganda's industrial sector remains small compared to Kenya and Tanzania, however, it continues to grow despite challenges of high energy costs and high costs of inputs considering Uganda's landlocked nature. The contribution to GDP of each sub-sector has remained stable between 2018 and 2020, however, the growth of the sector has declined significantly, mostly because of the effects of COVID 19 on the economy.

The mining and quarrying sector was the hardest hit with growth dropping from 33.4 percent to 0.2 percent, making it the most volatile sub-sector. The challenges of international trade especially for non-essential commodities impacted the extractives industry, with many operations forced to stall in the short term. Investment in Uganda's petroleum reserves remain low due to FID not yet being decided so the majority of mining activities still remain dominated by artisan miners with low capacity.

Provision of utilities such as electricity and water have been seen to remain stable over the years 2019 and 2020 with adequate growth rates of around 4 percent. This is mainly due to the government's prioritization of the construction of both larger and smaller hydro-power dams and the extension of the grid network country wide. This is expected to continue growing into the medium term as the government continues to prioritize energy projects.

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 is an opportunity for trading in the sector.

12.5 Growth in the Services Sector



Source: Uganda Statistical Abstract 2017, 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.

The trade, education, transport and hospitality sub-sectors all experienced negative growth trends in the FY 2019/20, all due to the emergence of the COVID 19 pandemic. With schools, restaurants and hotels closed, the sector experienced the heaviest blow and will struggle to recover not only in Uganda but globally. However, the ICT sector experienced some of the strongest gains in the economy, also due to the COVID19 pandemic. Due to the limitations in movement, interactions became more virtual in nature and the sector experienced growth of over 21 percent in the FY 2019/20. This was a marked improvement especially considering that the sector was experiencing slow and negative growth, mostly due to bottlenecks such as high costs of access and social media taxes among others.

The financial services also seemed to do well in spite of the pandemic, maintaining strong growth of over 9 percent over the years. The sector includes banking and insurance and the use of mobile money platforms to send and receive money. This shows that the sector is robust enough to survive shocks, mostly due to increasing demand for financial services domestically.

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 thanks to Sweden's development cooperation with Uganda. Despite this, however, the business relationship between the two countries has remained relatively low. 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 renewable energy and transport 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 Uganda signs and ratifies 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.

APPENDIX: CONTACTS OF KEY MINISTRIES, AGENCIES AND OTHER ORGANIZATIONS

NO.	NAME	CONTACTS
1	EMBASSY OF SWEDEN	Plot 24 Lumumba Avenue, P.O. Box 22669, Kampala. Tel: +256 417 700 800 Email: ambassaden.kampala@gov.se
2	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
3	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
4	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
5	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
6	UGANDA EXPORT PROMOTION BOARD	2nd Floor, UEDCL Tower Plot 37, Nakasero Road P. O. Box 5045 Kampala - Uganda Tel: +256 414 230 250/233 Email: uepc@starcom.co.ug, helpdesk@ugandaexportsonline.com
7	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

8	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
9	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
10	UGANDA MANUFACTURERS ASSOCIATION	UMA Showgrounds Lugogo, P.O. Box 6966, Kampala. Tel: +256 414 221 034/287 615/2 Email: administration@uma.or.ug