

# Doing Business in Uganda



Ministerie van Buitenlandse Zaken

In the last decade Uganda experienced an average economic growth of about 5%. Being one of the leading destinations for Foreign Direct Investments (FDI) in the East African Community, Uganda offers ample economic and business opportunities. A stable macro-economic policy, a growing internal market and accessible regional markets are elements of a market led development policy.

## Country Profile

Since 1986, the Government of Uganda - with international support - has acted to rehabilitate and stabilize the economy, amongst others by undertaking currency reform, and raising producer prices on export crops. The policy changes were especially aimed at dampening inflation while encouraging foreign investment to boost production and export earnings. Since 1990, economic reforms ushered in an era of solid economic growth based on continued investment in infrastructure, improved incentives for production and exports, lower inflation, and better domestic security.

Uganda has substantial natural resources, including small deposits of copper, gold and other minerals, and recently discovered oil. It also has a favorable climate, fertile soils and low production costs, which gives the country regional comparative advantages, specifically in the field of agriculture.



## Economy

After slowing in 2016 to 2.5%, amid election-related uncertainty, unfavorable weather conditions and high commercial lending rates, real GDP growth recovered in 2017 to 4.0%, and it expected to grow to 4.6% in 2018.

The sectors in Uganda for continued growth are agriculture (24.5%), industry (21%) and services (54.4%).



## Agriculture

The agricultural sector, which includes Fisheries, Animal Husbandry, Dairy, and Crop sub-sectors (coffee accounts for the bulk of export revenues), employs more than one-third of the labor force. About five million Ugandan households (25 million people) depend on agriculture for their livelihood. Uganda has a comparative advantage in food security for East Africa due to favorable rainfall, two agricultural seasons a year and relatively good soils. This means that it can produce food at relatively lower costs and more stable volumes. The country's long and medium term strategies, Vision 2040 and the National Development Plan II (2015-2020) aim at transforming traditional agriculture into commercially sustainable farming systems.

Agriculture can and is expected to create more jobs and feed the nation. But: the price of food can be a determinant of the inflation rates in the country.

## Industry

Industry includes manufacturing, construction, and electricity supply. Although its sectoral contribution to GDP fell to 21 percent, the sector is still regarded as a driver of employment, higher incomes and overall value creation. Also, industry is believed to play a pivotal role in Uganda's Vision 2040 targets. With various new projects in the pipeline, activity in the industry sector is expected to be bolstered in the coming years, not least because of oil related projects (commercial oil is expected to flow in 2020-2021). Also in construction flagship projects comprising hydropower stations will materialize.

## Services

The Services sector is made up of wholesale and retail trade, telecommunications, hotels and restaurants, transport and communications and tourism.

Services have a less socioeconomic impact than agriculture, but accounts for more than half of Uganda's GDP. With notable increases in telecoms, trade and related business activities, this sector is poised for still greater contributions.

Uganda is known around the world for its tourism potentials, and the tourism industry is also a major driver of employment, investments and foreign exchange in Uganda. Although there have been increased investments in tourism, particularly in travel accommodation and related facilities, there remains a lot of untapped potential. Adventure tourism, ecotourism and cultural tourism are currently being developed. Like most African economies, the challenge is to make this growth inclusive and sustainable.

## Outlook

Uganda's economic outlook is positive. Barring any subsequent weather-related shocks, real GDP growth is forecast to pick up to a yearly average of 5.1% over 2018-2021, if major infrastructure projects are implemented as planned, and private investment intensifies with oil-related activities. This growth rate is on par with most peer countries in Sub-Saharan Africa, but below the average recorded in Uganda over the previous decade.

The Government's economic policies are expected to remain focused on keeping inflation low and boosting growth. Priority areas are agriculture production and productivity, unlocking Uganda's tourism potential, human capital and skills development, improving good governance, and last but not least, effective development and maintenance of infrastructure. The Government's extensive infrastructure development program is expected to boost local economic activity even if the global economy remains slow.

## Links

More information about Uganda and its economy can be found on the following sites:

- The African Development Bank (AfDB):  
<https://www.afdb.org/en/countries/east-africa/uganda>.
- African Economic Outlook:  
<http://www.africaneconomicoutlook.org/en/country-notes/uganda>.
- CIA World Factbook:  
<https://www.cia.gov/library/publications/the-world-factbook/geos/ug.html>.

## Doing Business

### Opportunities

- Uganda offers a wide range of business opportunities in many different sectors, combined with a large market size and -potential, with (still) limited competition.
- Expanding internal and regional markets: Eastern DRC, South Sudan, Burundi, Kenya and Rwanda are important consumer markets for Uganda's agriproducts, and Uganda functions as transit country for various goods. The multi-donor funded organisation Trade Mark East Africa (TMEA) implements activities focused on increasing the interconnectivity of cross border markets.
- The entrepreneurial and creative spirit of Ugandans: Uganda is the most entrepreneurial country in the world according to the Global Entrepreneurship Monitor.
- Ease and transparency of starting a business: 'one stop shop' at the Uganda Registration Services Bureau.
- Open attitude towards (foreign direct) investments.
- Safe and stable environment.

### Challenges

- The road towards low middle income status and structural inclusive growth is not without internal challenges, the biggest one being the high population growth: with a population currently growing at 3.2% per year, Uganda needs 9.6% of GDP growth annually to reach low middle income status in 2020.
- Although Uganda is a stable country in a volatile region, the logistic advantage of Uganda being a hub connecting coastal states (Kenya, Tanzania) with fast growing markets in the Great Lakes region, turns into a disadvantage the moment regional trade flows are disturbed by political instability (e.g. as currently experienced in South Sudan & DRC).
- Expensive finance remains a major cross cutting impediment to Uganda's economic development. Specifically, agro-finance remains prohibitively expensive since local commercial banks opt to offer commercial rather than agricultural loans due to the (perceived) high risk.
- Growing public debt: it is anticipated that Uganda's total public debt will peak in 2020/21, at about 50 percent of GDP (and external public debt at about 36 percent of GDP).
- Corruption: remains a big challenge and is a major cause of spillage and loss of public resources. This is also shown in the Corruption Perceptions Index 2016 of Transparency International, where Uganda ranks 151 of the 176 countries being evaluated.

## Bilateral Relationship

The Netherlands encourages and supports the economic development of Uganda. This support is aligned with Vision 2040, the Ugandan long term development outlook. Since 2012 the bilateral relationship with Uganda focuses on reducing poverty, on boosting economic growth, on increasing market access and on improving the business climate ('aid, trade and investments'). The efforts of the Embassy of the Kingdom of the Netherlands in the area of economic cooperation are pro-actively aimed at sustainable business development in the sectors Agro-Food, Energy (Oil & Gas and Renewables), Logistics/Transport and Tourism.

To enable the 'transitional' agenda, the Embassy implements an Economic Diplomacy program that is closely linked to the Food Security program, with an important focus on private sector development (PSD). PSD is at the heart of the transitional agenda, because sustainable and inclusive growth starts with a better business climate: it allows the private sector to develop jobs and generate sustainable economic growth. The Embassy's efforts are focused on enhancing a business enabling environment in Uganda by increasing access to markets and building capacity in (Government) institutions. PSD is also about providing direct support to businesses, and several business instruments are available for the private sector, both local and from the Netherlands.

The Embassy in Kampala engages strategic entities, such as ministries, departments and autonomous agencies that are crucial for PSD. It pro-actively identifies strategic champions of positive change within Government and develops relationships by partnering up in projects and/or organizing joint activities.

Moreover, the Embassy focuses on stimulating cooperation between Ugandan and Dutch businesses (B2B, with the Embassy in the role of broker), and offers services of due diligence when requested to do so by Dutch companies. Moving forward, the Embassy will nurture local SMEs to develop a pool of quality SMEs for Dutch businesses to engage.

The number of Dutch companies or Ugandan companies with Dutch trade links that are registered is steadily growing (to more than a hundred today). The Netherlands Uganda Trade and Investment Platform (NUTIP) is one of the vehicles to strengthen business linkages between Uganda and the Netherlands.

## More information:

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