

UGANDA



COUNTRY BACKGROUND
Issues and Opportunities

UGANDA

Economic Development & current status Issues & Opportunities

N Popat
Unilever Uganda Ltd

Uganda Economy -rebuilding phase

Our journey.....

- **Horizon 1 - 1990 to 2000s**
 - Political stability since 1986
 - Economy recorded good growth over the years
 - Conducive investment environment
 - Import duty on inputs - favoring revival of industries
 - Rebuilding from destroyed past
 - Open door & open arm to investment
- **Result**
 - A decade of growth ,Recorded one of the highest GDP growth
 - Aggressive investment in all sectors

Uganda Economy -rebuilding phase highlights of horizon 1

- Policy Guided to build the country from a "destroyed past"
- Fully accepted IMF, WB, Donor prescription:
 - Exchange rate & trade liberalisation
 - External debt policy
 - Privatisation ("One stop" shopping)
 - Tariff structure to support local industries (0% & 7%)
 - Public sector management reforms
 - Poverty eradication strategy
 - Control of HIV/AIDS
 - Media & Press liberalization
- In return -Donor support 50% of budget
- *Result:*
 - Uganda registered one of the highest GDP growth rate in Africa!*
 - Model for Rest of Africa -*
 - Uganda's successful reform program a case study!!*

Uganda - impact of conducive economic policies

Horizon 1 Growth

➤ Attracted investment in:

- Commerce & Industry (rehabilitation & new),
- Tele com, IT, & infrastructure (road & power)
- Hospitality

➤ Examples of Key Investments

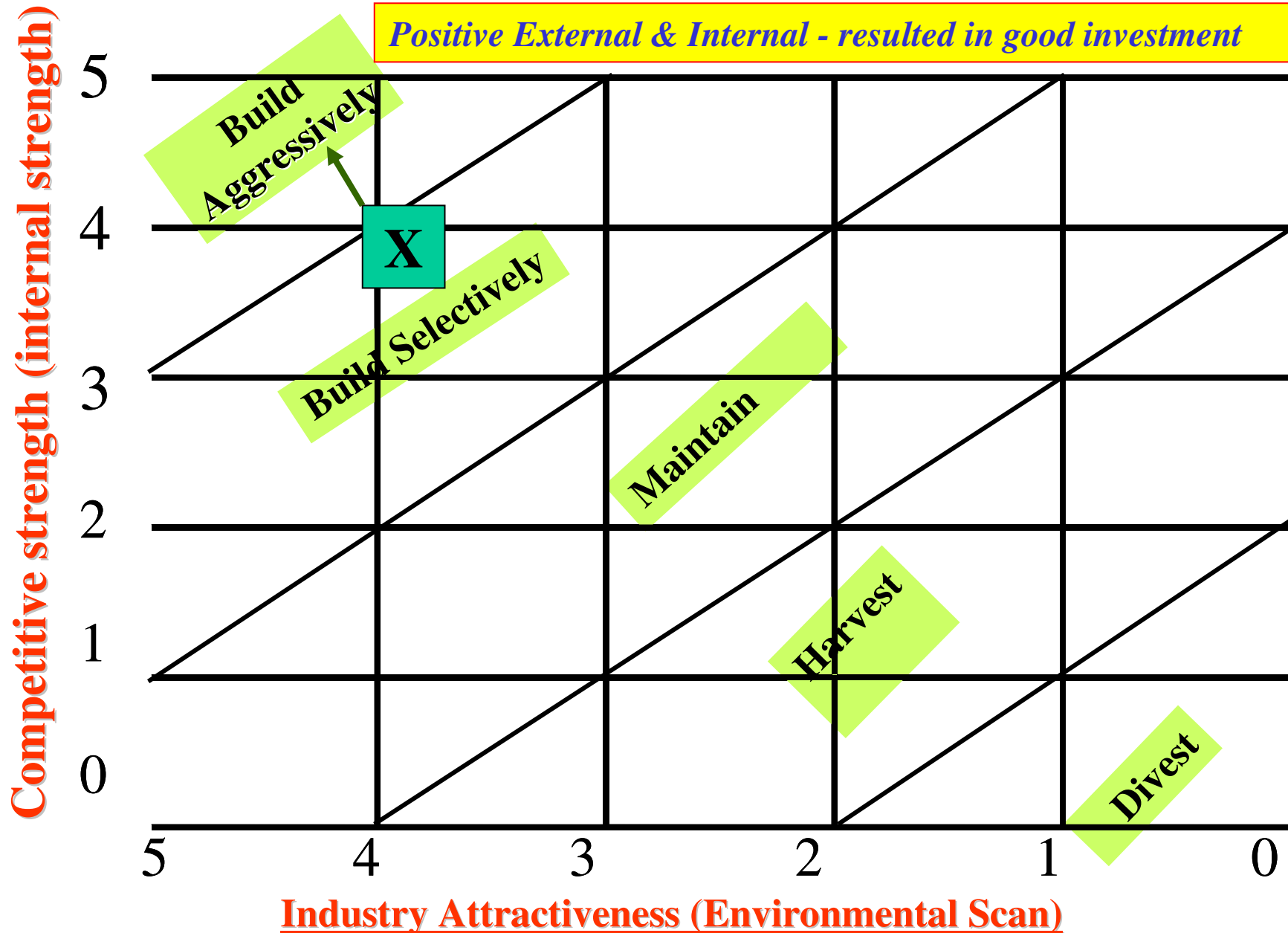
- Agro -Milk processing, Fruit processing, fishery, tobacco
- FMCG -flour mills, Oils, soaps, Beauty products, baking
- Petroleum- Local blending for lubrication oil
- Construction - steel, cement
- Infrastructure: Telecommunication; power
- Media -TV 5, FM stations >60
- Retail trade- Metro, Shoprite, Uchumi, local SSS, +30,000 shops
- Banking : Citibank, SCB, Stanbic (UCB)
- Privatisation: ongoing process (UTL, UEB, New vision)

Consequently - manufacturing as % of GDP has grown by +60% in 5 years (though still 10% of GDP)

Uganda Economy -Result of the reforms

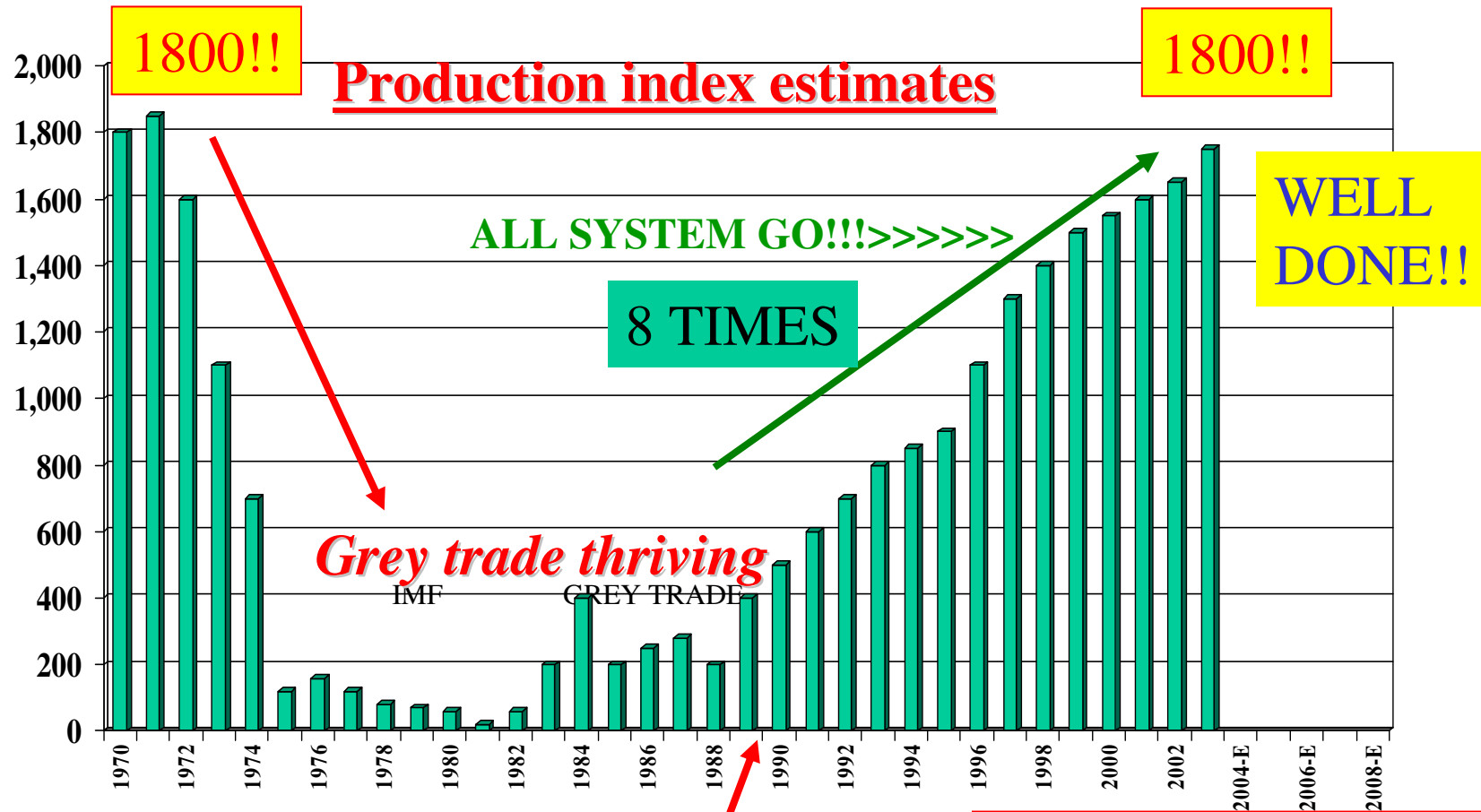
- **Economic growth & macro economic stability:**
 - Inflation down to <10% from + 100% in 1986, economy doubled
 - Real GDP growth averaging 6% p.a., Per capita up by >50%
- **Infrastructure:**
 - improvement in power, communication
- **Education:**
 - Free primary education (nos. 6.1m up from 2.5m)
- **Health Care:** -Increase in health units especially in rural areas
 - Reduction in HIV infection from 18.3% to 6.3% in 10 years
- **Agriculture:Focus on exports**
 - Liberalised marketing of Tea & Coffee
 - Increased production of Cotton, sunflower, cut flowers, vanilla etc.
 - Palm Oil Project approved
- *Consequently number of Ugandan unable to meet their basic need has dropped from 56% to <35%*

McKinsey Matrix Uganda - Position in Horizon 1



UGANDA INDUSTRIAL DEVELOPMENT-SUMMARY

down.. Up ... Horizon 1 -result of conducive policies



1800!!

1800!!

Production index estimates

ALL SYSTEM GO!!!>>>>>

8 TIMES

WELL DONE!!

Grey trade thriving

Incentive for investment in 1991>> index jumped from 200 in 88 to 650 in 91 But still relatively low

Because of slow start, Govt classified Intermediates & RM to 0% & 7% duty. Thus growth from 600 in 91 to 1800 in 2002/3 in 10yrs X3!!!

Uganda Economy Structure -1997 Vs 2002

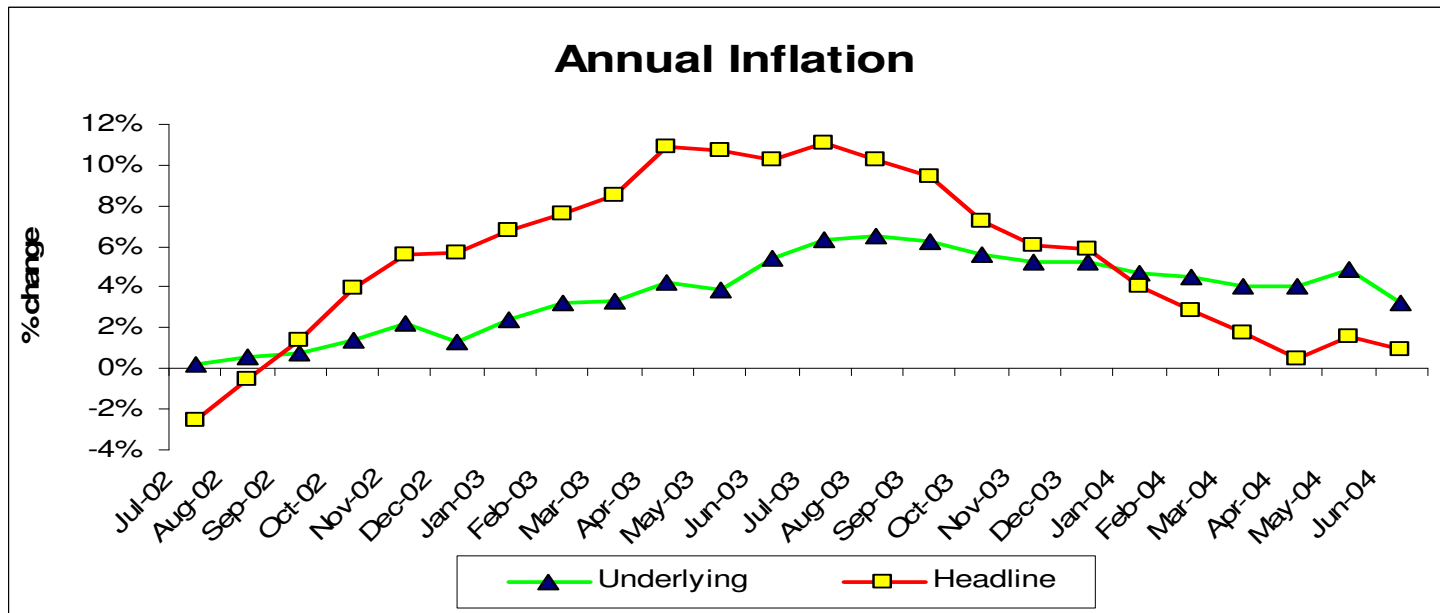
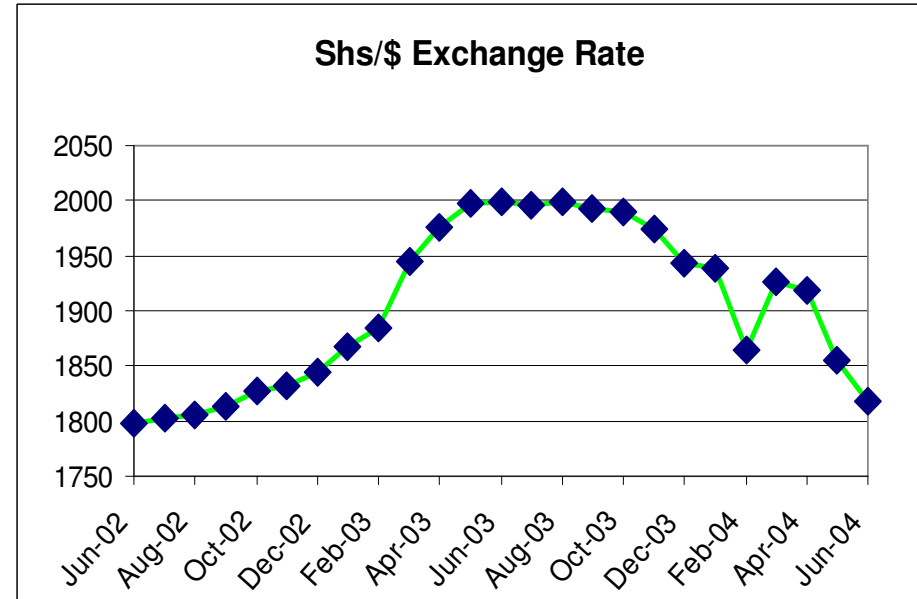
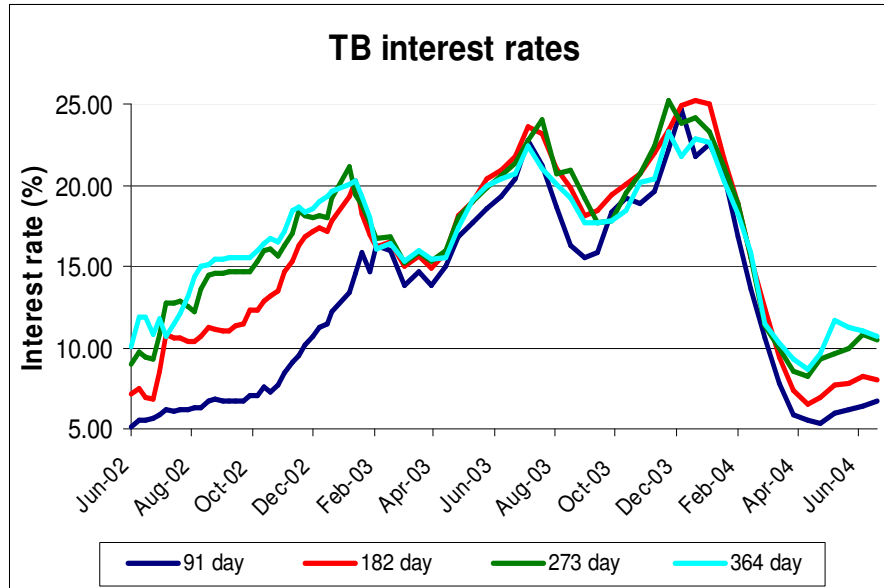
*All sectors registered growth -
manufacture registered 67% in 5 yrs!!*

All figs in current monies

<i>Source: Table 2, Pg A4, Background to budget03/04</i>	1997	1997 % of Total GDP	2003	2003 % of Total GDP	Change 03/97
Agriculture	2,760	43%	3,883	33%	41%
Manufacturing	610	9%	1,019	9%	67%
Power & water	91	1%	152	1%	67%
Construction	457	7%	1,170	10%	156%
Wholesale & Retail	691	11%	1,310	11%	90%
Community Services	1,256	19%	2,415	21%	92%
Transport & communication	315	5%	597	5%	90%
Others	297	5%	1,088	9%	266%
Total Sectors GDP Ush bl	6,477	100%	11,634	100%	80%
Exchange Rate Ush/ \$	1083		1963		81%
Total GDP in \$ bl	6.0		5.9		-1%
Population	21	21.02	25.86	25.86	19%
Per capita Ush 000 pa	308	0	450	0	29%
Per Capita \$ pa	284.5	-	229	-	-22%

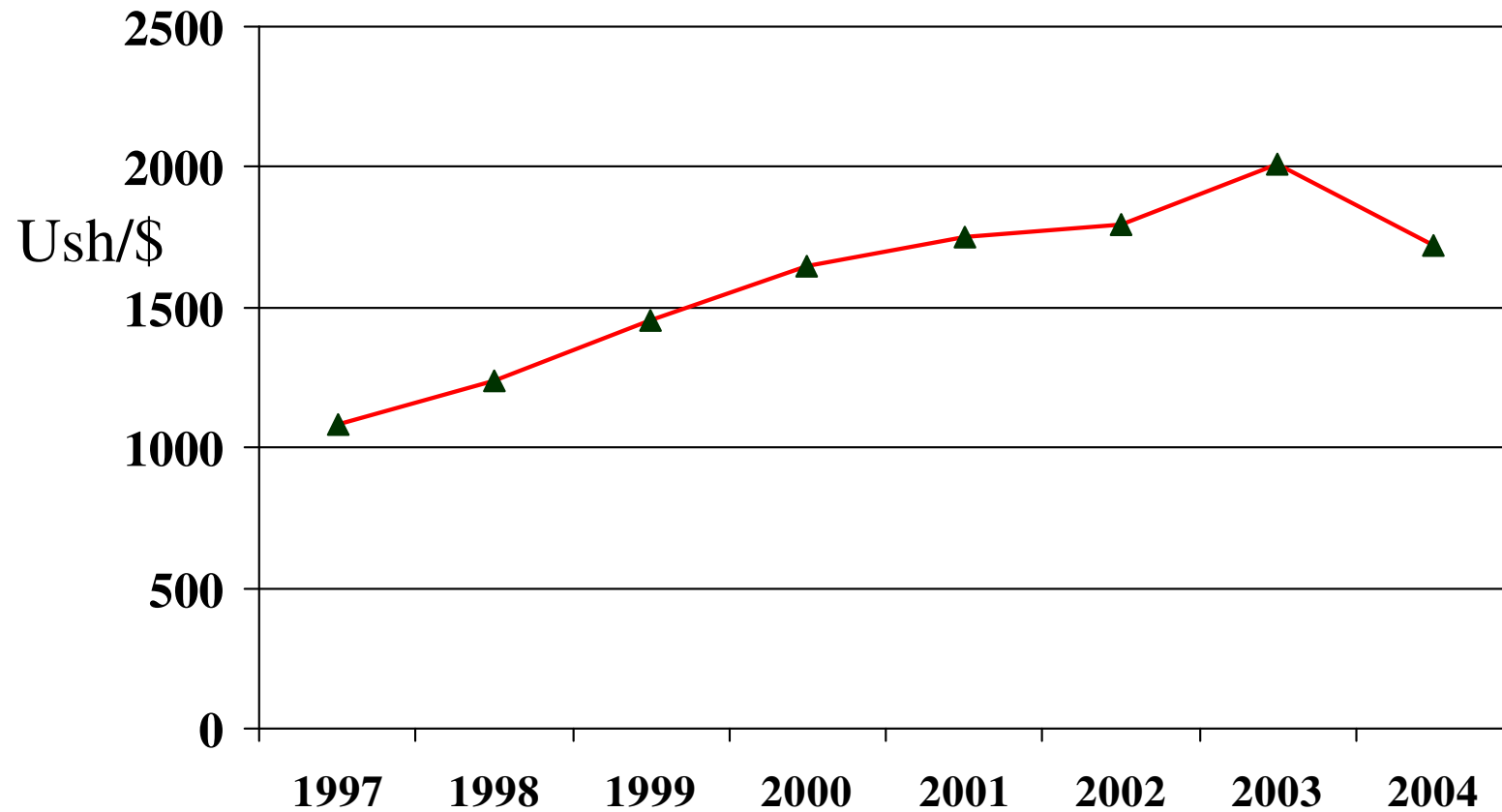
Recent Economic trends at a glance 2003

Uganda Recent Trends



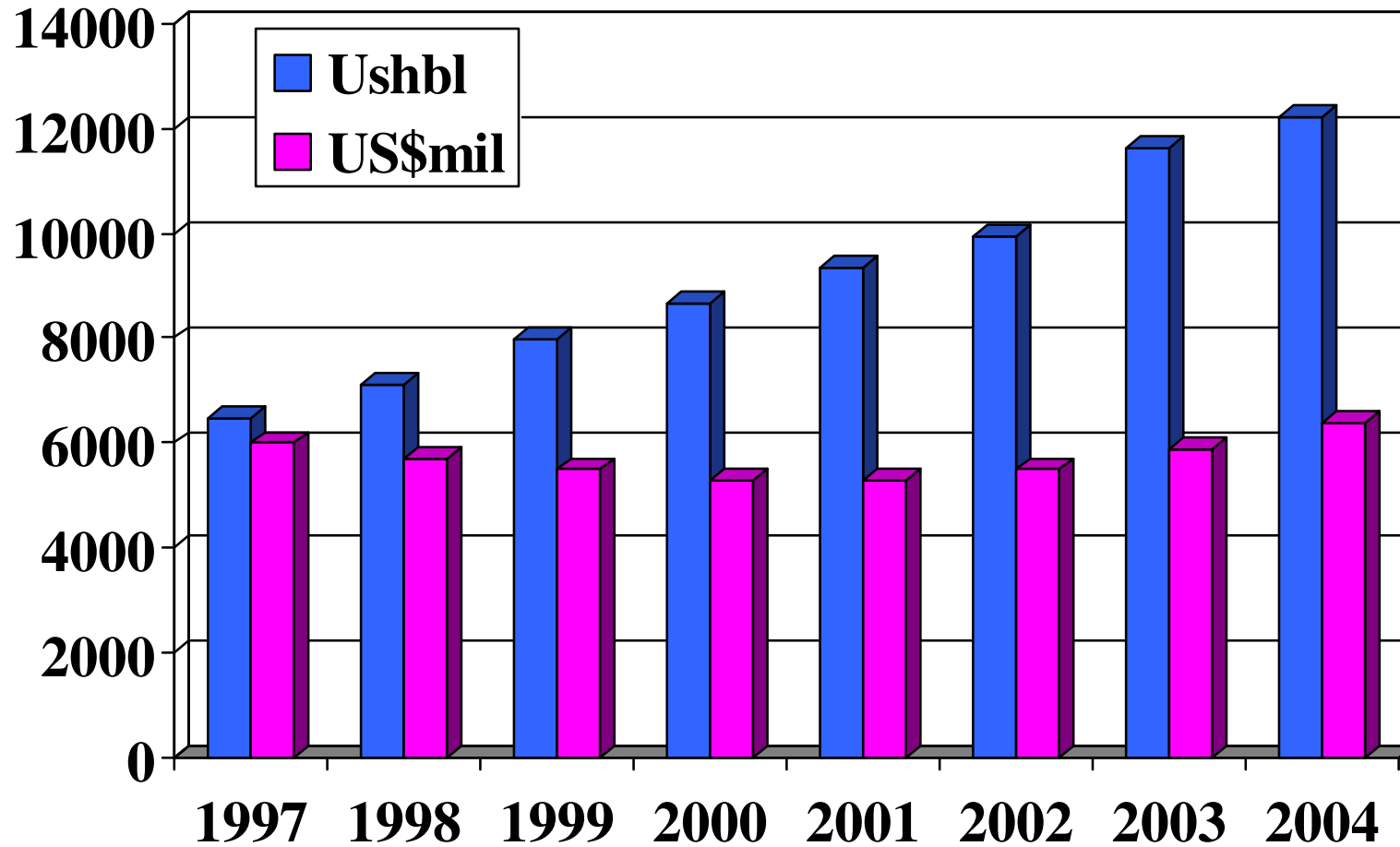
There has been depreciation of

Ush 1083/\$ in 1997 to 2000/\$ in 2003 now 1730/\$

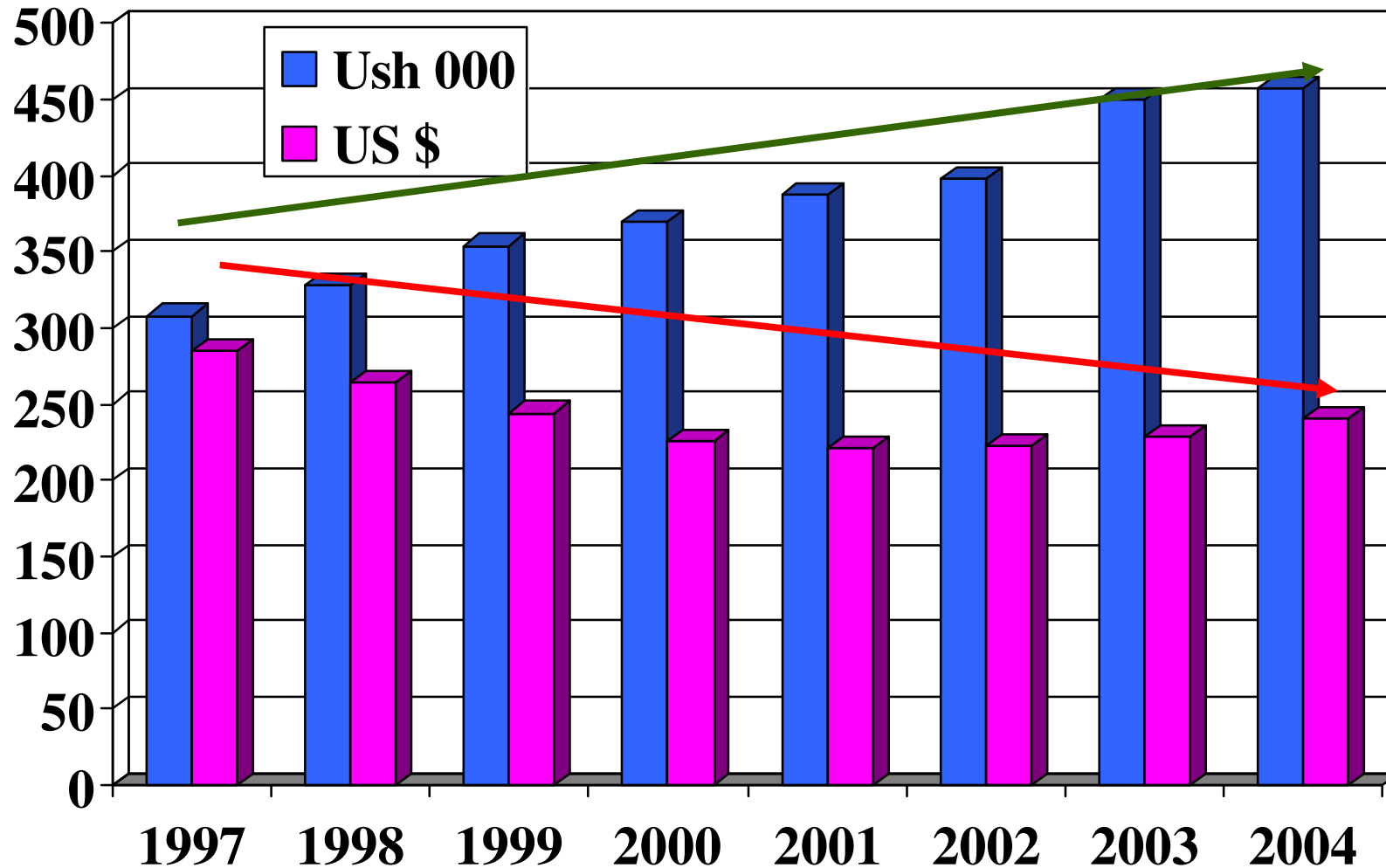


Therefore Uganda GDP: *growing in Ush,*
but not in US\$

(from Background to budget 2002/3)



The consequence on per capita:
growth in Ush from 300K pa to 457k pa,
but decline in \$ from 285 to <240
(from Background to budget 2002/3)



Uganda Economic Indicators

As expressed in Ush & \$

Parameter	1997	1998	1999	2000	2001	2002	2003	2004 est
Population m end yr A65	21.11	21.83	22.59	23.36	24.17	25.00	25.86	26.8
Population growth %		3.4%	3.5%	3.4%	3.5%	3.4%	3.4%	3.4%
GDP in Ush bl pg A14	6,477	7,114	7,995	8,671	9,347	9,940	11,634	12,216
GDP growth year on year%		9.8%	12.4%	8.5%	8%	6%	17%	5%
GDP per capita Ush 000pa	307	326	354	371	387	398	450	457
GDP per capita Growth		6.2%	8.6%	4.9%	4.2%	2.8%	13.1%	1.5%
Figures in US\$..								
Exchange rate av Ush/\$ av	1083	1240	1454	1644	1755	1797	1964	1900
Depreciation rate year on year		14.5%	17.3%	13.1%	6.8%	2.4%	9.3%	-3.3%
GDP \$ billion at XC rate.	6.0	5.7	5.5	5.3	5.3	5.5	5.9	6.4
GDP per capita \$ pa	283	263	243	226	220	221	229	240
GDP \$ per capita growth %		-7.2%	-7.4%	-7.2%	-1.0%	0.4%	3.5%	4.9%
NB Population Census in Oct 2002 pg A65								
Background to budget 2004/5, Ministry of Finance, Planning & Economic Development								

Uganda Economic Growth "Next horizon"

- **C**reating A **M**odern, **I**ntegrated and **S**elf **S**ustaining **E**conomy
- Grow GDP in Ush & also in \$
- GDP growth in double digit

Uganda - Issues/opportunities - For Horizon 2

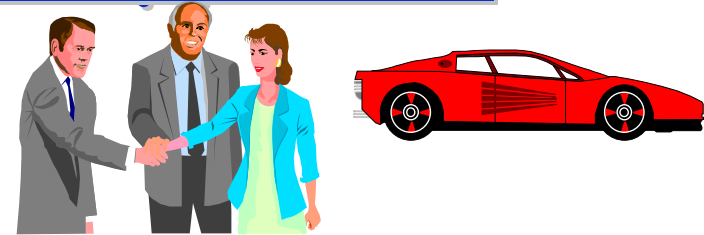
- **Consumerism**
 - GDP & Growth
 - How to increase consumption
 - Coinage
 - Prices of FMCG
 - Value added agriculture
 - Vibrant middle class
- **Cost of doing business**
 - Supply Chain costs
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 - Stability of interest rate
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 - VAT
- **Regional Relationship**
 - Gap between Politics & reality
 - CET effective implementation of safeguards
 - Internal Tariff - implementation
 - COMESA Vs EAC
- **Counterfeits & look alike**

CONSUMERS

Where are they in the Economic Pyramid?
How are they affected by the recent trends?
How can we create a vibrant middle class?
How do we create wealth?

Consumer income levels for all population - typical pyramid

α = top end - "wants, desire",
luxury, travel, etc



β = middle class - "needs >> desires"
first time buyers of house, cars,
emphasis on education, and improving
lives, building aspirations (1, 2, 3, 4!!!)

β

γ = "basic needs"
have Vs have not
meeting ends

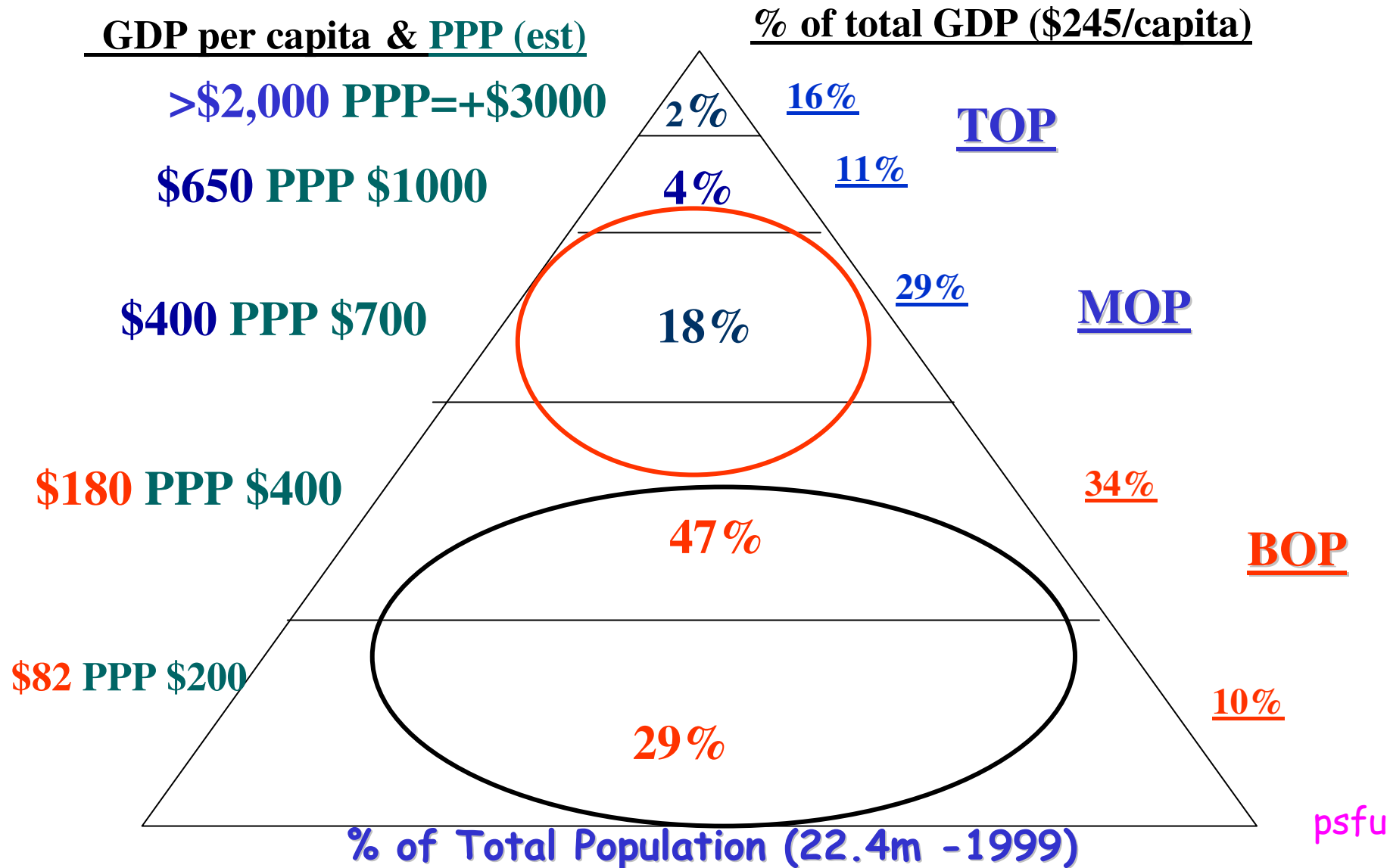
γ
Urban

γ
Rural



Where are the consumers in the economic pyramid?...

source windows of Uganda
(1999 PPP estimated @\$490/capita)



Uganda :Population profile summary

Population 2003 -25.8m, marginal shift in the groups

- **T O P** =6-10% of population accounts for +25% GDP
- **M O P** =16-18% of population accounts for 29% GDP
- **B O P**= 73-76% of population account for 44% GDP
- **Av GDP (\$0.60/day) Ush 1500/= a day**
 - **\$4 per HH per day**
- **Consequence:**
 - **Consumption of FMCG is lower in comparison to similar economies**
 - **Aspirations high - but affordability is big???**

Some comparisons of consumption of FMCG

• Uganda

- Cooking Oils- 2,200g/yr
- Packed tea - <200g/yr
- Laundry bars -3400g/yr
- Biscuits - 275g/yr
- Mobile connections 800k

• Kenya

- Cooking oils- 5,000g/yr
- Packed Tea - 500g/yr
- Laundry Bars - 3800g/yr
- Biscuits- 500g/yr
- Mobile connections +2.5m

*Though GPD is more or less equal consumption is 1/2 of Kenya
The market of Uganda is therefore smaller in per capita
This is an issue & opportunity!!!*

Low denomination coins examples

<u>Country</u>	<u>lowest denomination</u>	<u>Equal to US Cent</u>
Uganda	50 Shs	2.5 cents
Kenya	50 cents	0.6 cents
	10 cents	0.12 cents
India	5 paisa	0.1 cent
SA	5 cents	.6 cents
UK	1 penny	1.6 cents
USA		1 cent

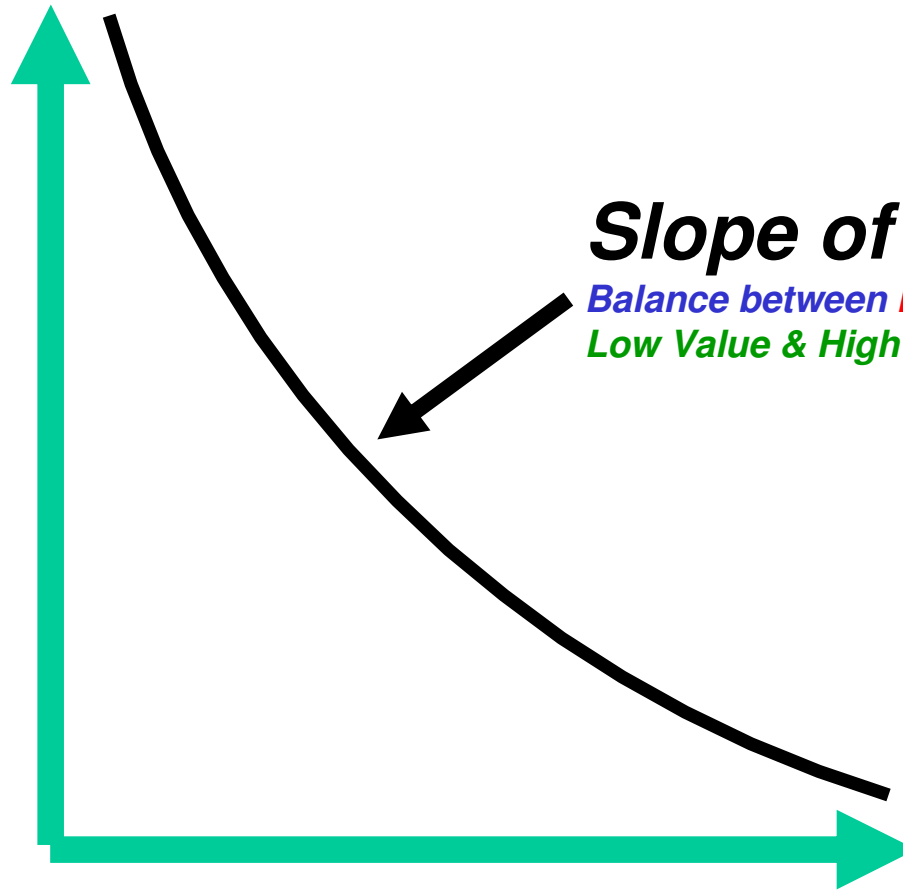
- Low denomination coins are:
 - Norm for development of consumerism
 - Norm for management of Price Point & inflation
 - In Uganda with 50/= as lowest denomination, low unit price packs are not viable:
 - Packs of <200/= in denomination of 10/=
 - 5% inflation can trigger upto 50% inflation (eg from 100/= to Ush 150/=!!)
 - This could be one of the reasons for lower consumption

Uganda : PPP illustrations

- Soaps -60,000tons/yr:
 - Ideal price of a piece of 150g: Ush 170/=
 - But the actual price per piece: Ush 200/=
 - *Over spent per ton of soap:* Ush 200,000/=
- *Over spent per year:* Ush 12 BILLION !!
- Popular Biscuits:
 - Ideal price for 4 pieces: Ush 35 /=
 - Actual Price for 4 pieces: Ush 50 /=
- *Over spent per year:* Ush 5BILLION !!
- Peracetamol:(Wholesale Shs 4/=each)
 - Ideal price per tablet: Ush 8/=
 - Actual price per tablet: Ush 50/= /2
tabs!
- There are many such examples of **INEFFICIENCY** in our trading system -
- So annually we must be wasting a lot of **CASH** mainly from population at "B O P"!!!

Value Volume Opportunity

Value
per Unit



Volumes (Reach consumers)

Typical shop - LUP/SUPs!!!

Typical items at <10 us cent/unit



Such range of products are not easily seen in Uganda!

Uganda :Opportunities

To improve the lives of millions of people at the bottom end of the economic pyramid!!

- *Opportunity:*
 - Increasing the earning of 76% (app 18m) by just 100/= / day
 - EXTRA Ush1.8 BILLION/DAY or Ush 657 BILLION (\$330m) or 6% of GDP per Year in the economy !!
 - If the current 1800/= can buy 10% more through right price points (eg 170/= for a piece of soap Vs 200/=)
 - EXTRA Ush3.5 BILLION/DAY or Ush1,277 BILLION (\$640m) or 12% of GDP per year in spending
 - Impact of both can be 18% improvement in GDP & revenue & growth
 - Small denomination coins are prerequisite for our type of economy to grow (India, Indonesia)

Supply Chain

Private Sector's Role in "Plumbing the Economy"

Mission:- *Growth, Growth and Growth*

- "Provide **cost effective** services and goods to the **all consumers everyday and everywhere**"

"A COST EFFECTIVE SUPPLY CHAIN PARTNER"

Private Sector's Role in "Plumbing the Economy"

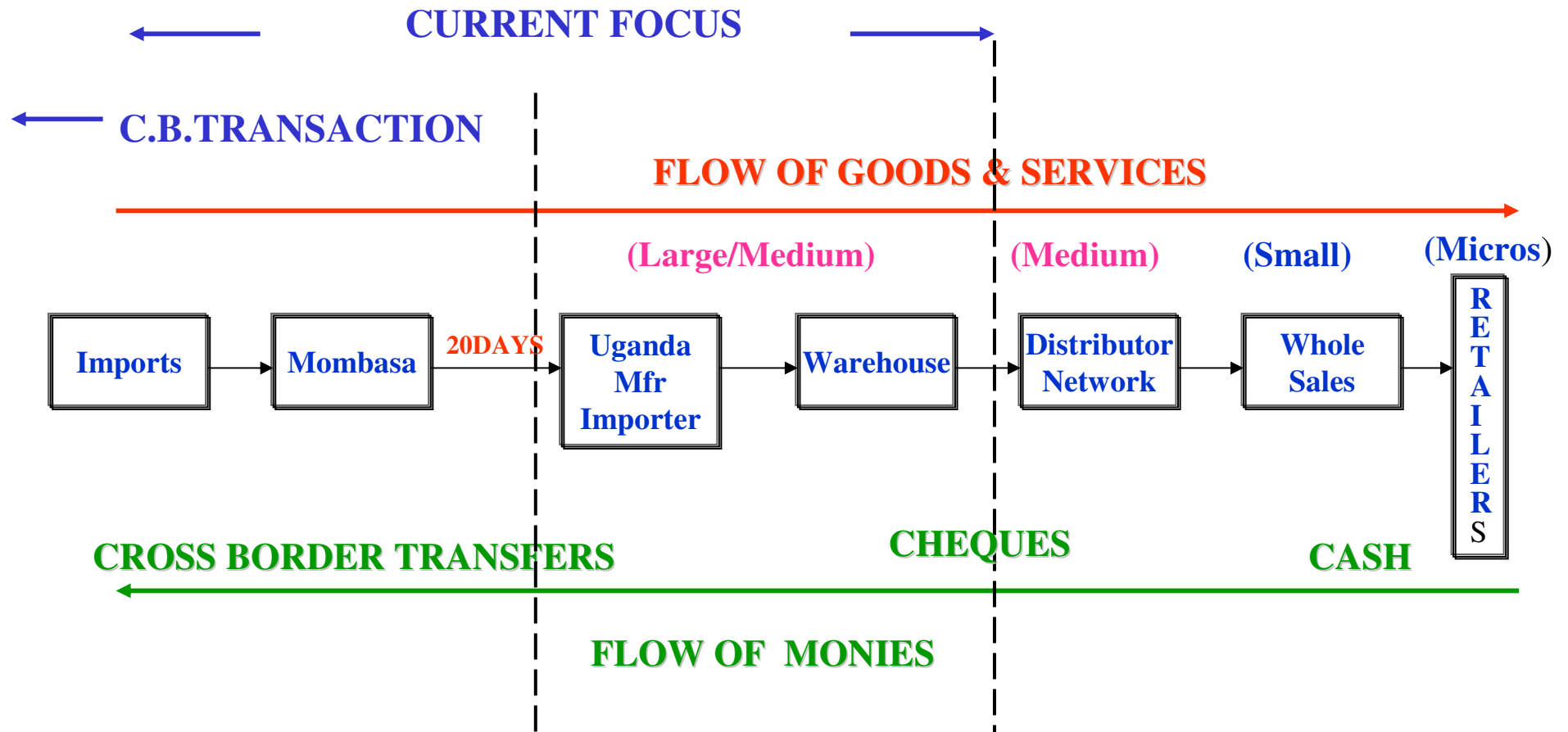
- **Critical Success Factors for cost effective SC partner:**
 - **Availability** - at the point of purchase
 - **Affordability** - with in the reach of masses earning < \$ 1 per day
 - **At the right price point** giving reasonable "Returns" to the trade.
 - **Velocity of the transaction** (ie turn round of the goods)
 - **Appropriate infrastructure** to facilitate the flow of "monies , goods & services"

Good plumbing without leaks & too many bends!!!

Characteristic of Uganda Supply chain

- Land Locked country thus cost issues:
 - High Cost of Working Capital
 - Transport MSA to KLA 15-21 days
 - Inventory of minimum 90 days (in house & transit)
 - Exchange risks if goods bought on long credit
 - High & uncertain interest rates
 - Turn round of WC poor.
 - Higher cost of conversion
 - Power cost and uncertainty
 - Overall productivity
 - *Current "plumbing" is with too many bends to service consumers cost effectively!!*

FLOW OF GOODS & SERVICES (SUPPLY CHAIN) - UGANDA



Estimated outlets SMES:- K = +90,000; U = +60,000; Tz = +90,000

Total + 240,000 outlets Serving +90million people

PS Business Enterprises-Overview

- 87% of enterprises (app 50,000) in are at MICRO level with less than 2 employees!!
- **Large** enterprises are highly dependent on the **MEDIUM ,SMALL & MICRO** enterprises as a "**route to the market**" ie meeting consumers demand & creating demand.
 - To have sustainable business development & economic growth we require a vibrant micro, small and medium enterprise sector
 - The constraint like poor macro economic policy, insecurity, infrastructure inhibits systematic growths
 - These group can be a powerful MIDDLE CLASS
 - Creating Employment
 - Informal sector

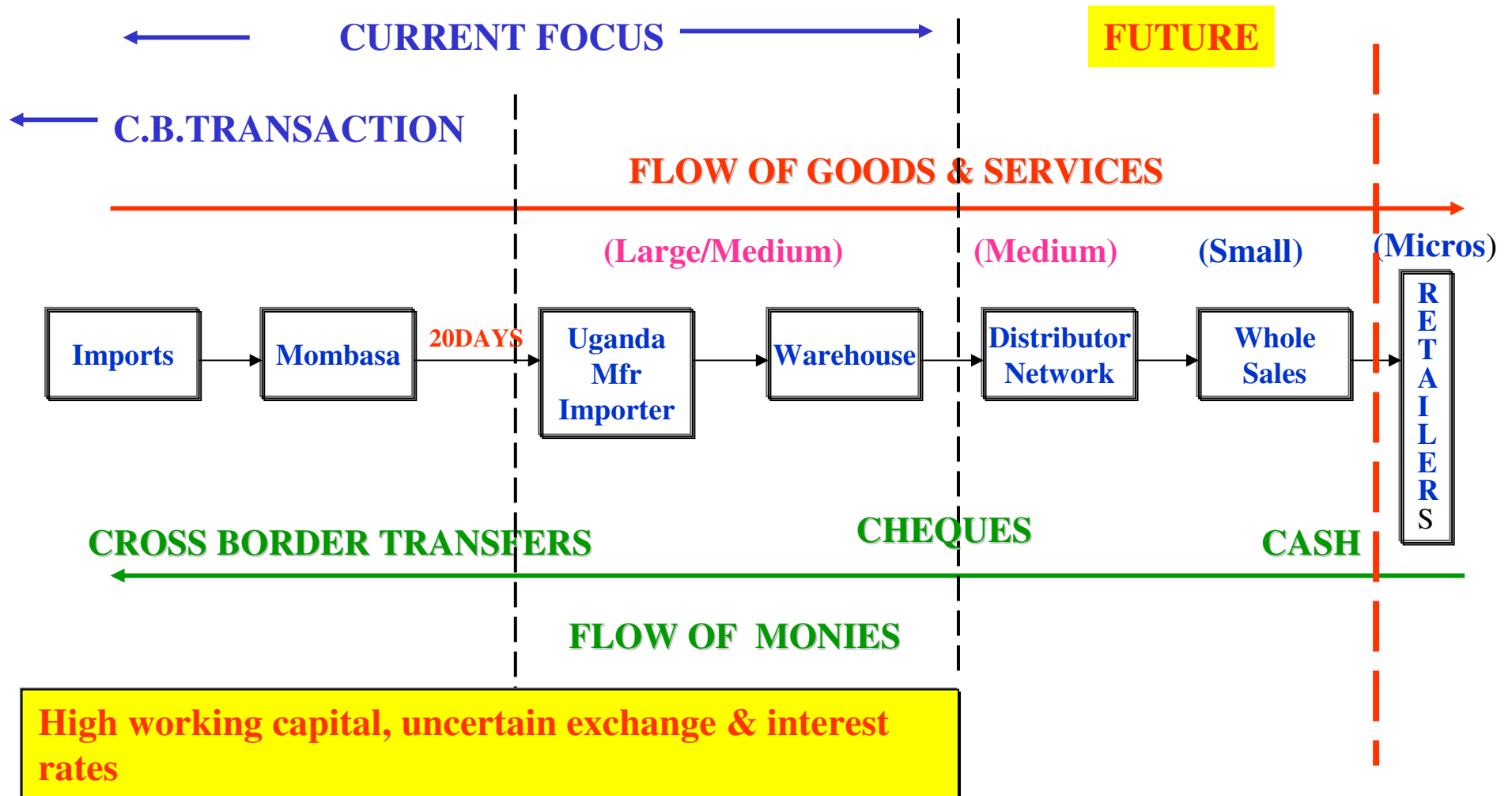
What are the issues for SMEs?

- Lack of Credit (collateral???)
- No formalisation of capital assets eg title deeds in rural areas.
- Major skill gaps (business skills, book keeping)
- Weakness in cash flow management
 - **cash = profits; first million goes to 4WD**
 - **Confused about taxes especially VAT**
 - **Poor record keeping**
- No (always) access to banks,
 - where accessible -Costly (charges on banking, coins etc)
- Lack of linkage with medium & large enterprises
- Unaware of risks and opportunities

So How Can we help SMES?

- Most improvement in banking infrastructure addresses the needs of large sectors
- But work required in improving banking for SMEs
- Rural Area Focus (shift paradigm)
 - Cost effective banking (bank charges can be inhibitors)
 - Credit facilities for SMEs in rural areas
 - How do we trigger growth?
 - Marketing of the produce
 - Prompt Payment and at right Prices
 - Small denomination coins to help Price points & grow consumption at BOP

FLOW OF GOODS & SERVICES (SUPPLY CHAIN) - UGANDA FROM CURRENT TO FUTURE

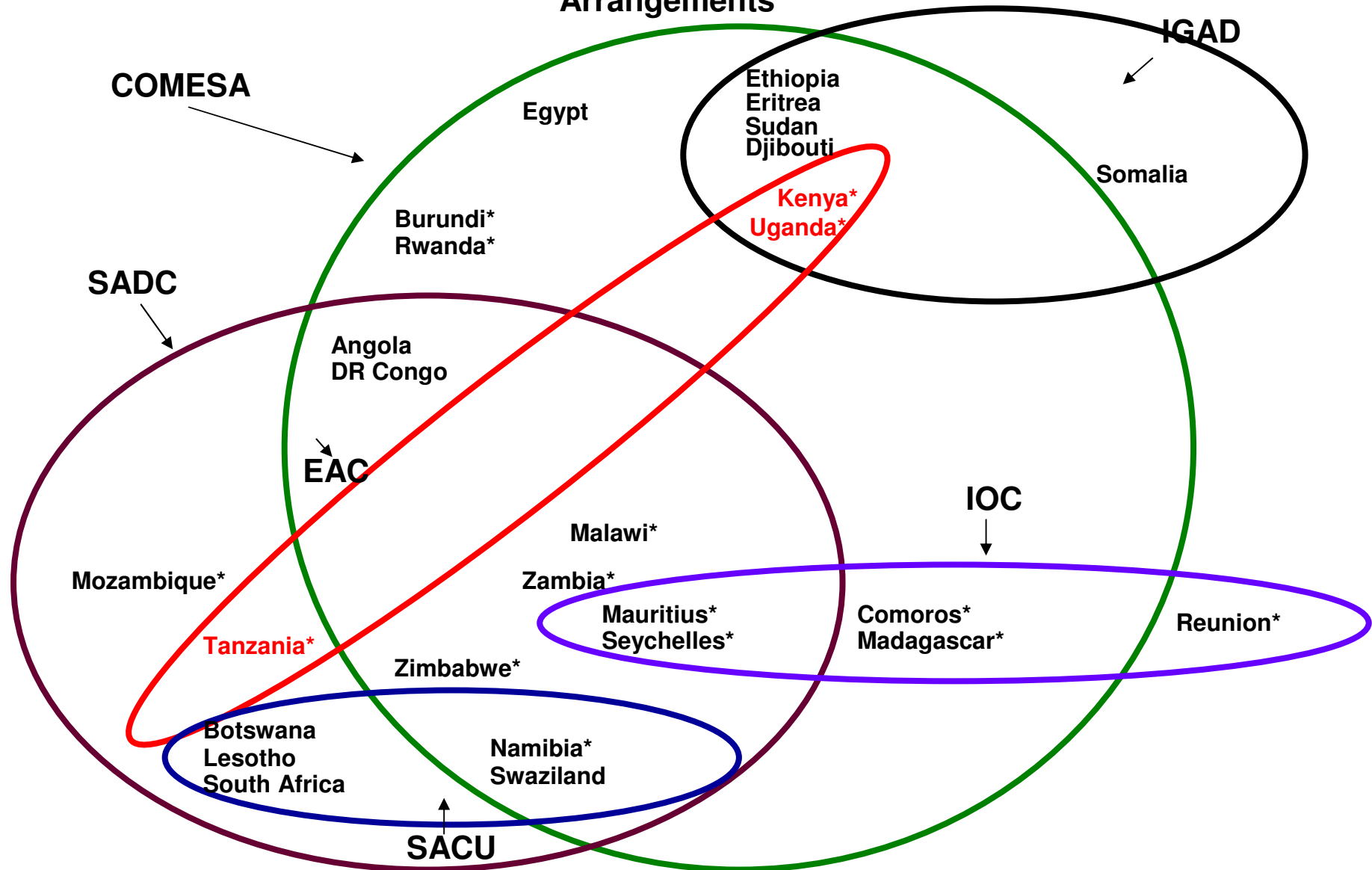


Estimated outlets SMES:- K = +90,000; U = +60,000; Tz = +90,000

Regional trade Uncertainty & Opportunities?

- EACU - now a reality, transition issues:
 - CET & Protection of local industries
 - Current inputs at STATUS QUO?
- Competitiveness of Uganda Industries Vs well established Kenyan setups
- Opening of DRC, Sudan etc

Chart of East & Southern Africa Regional Economic Integration Arrangements



COMESA: Common Market for Eastern & Southern Africa

EAC: East African Cooperation

IGAD: Intergovernmental Authority on Development

IOC: Indian Ocean Commission

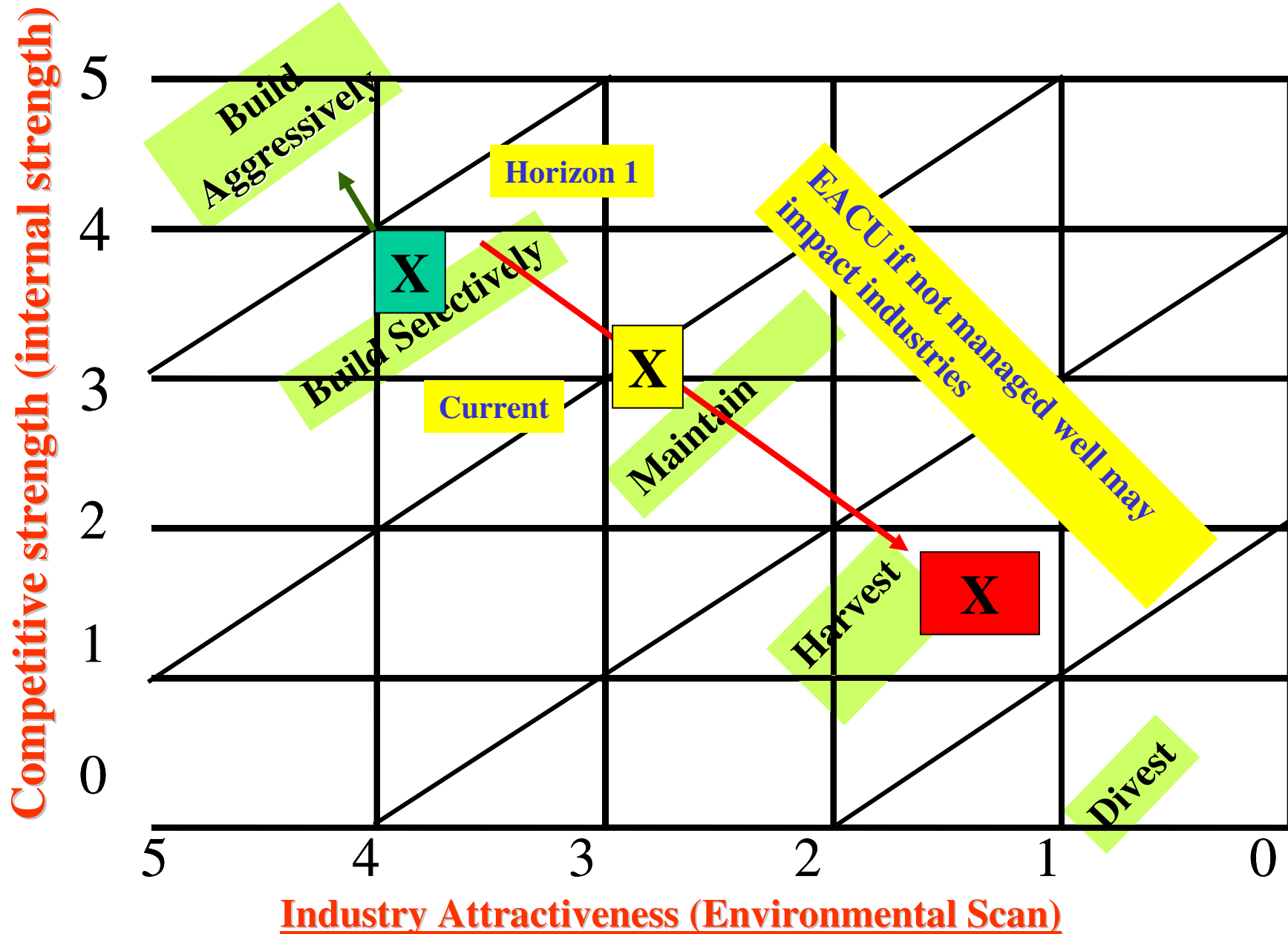
SACU: Southern African Customs Union

SADC: Southern African Development Community

***RIFF:** Regional Integration Facilitation Forum

***RIFF:** Observer status

McKinsey Matrix Uganda - Position in Horizon 1 & CET



Our joint Vision >>Mission....

Improving the lives of millions of citizens at the bottom end of economic pyramid is a noble endeavour.

It can be a lucrative one for all

Government, banks and Private Sector!!!

- The BOP is totally a subsistence & cash economy***
- Opportunity to build COMMERCIAL capacity!!!***
- Opportunity to create wealth & develop vibrant middle class***

Uganda - Issues - For Horizon 2

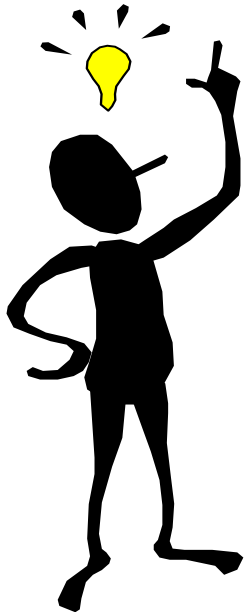
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Uganda - Outlook Challenge

- *Will these issues and opportunities take Uganda to the next horizon of growth??*
 - *Within EAC*
 - *With in global economy.....*
 - *Can we have agenda of WEALTH CREATION and Sustainable growth*

*"Vision without action is merely a dream
Action without vision is merely passing time
But vision with action can change world"*

Nelson Mandela



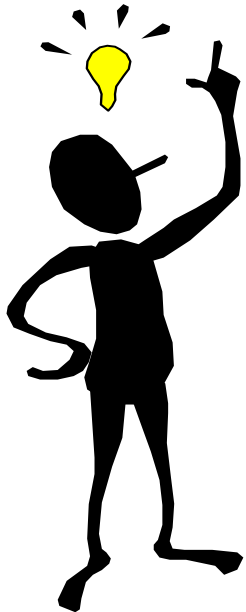
*"You see things and you say why?
But I dream things and say why not"*

George Bernard Shaw

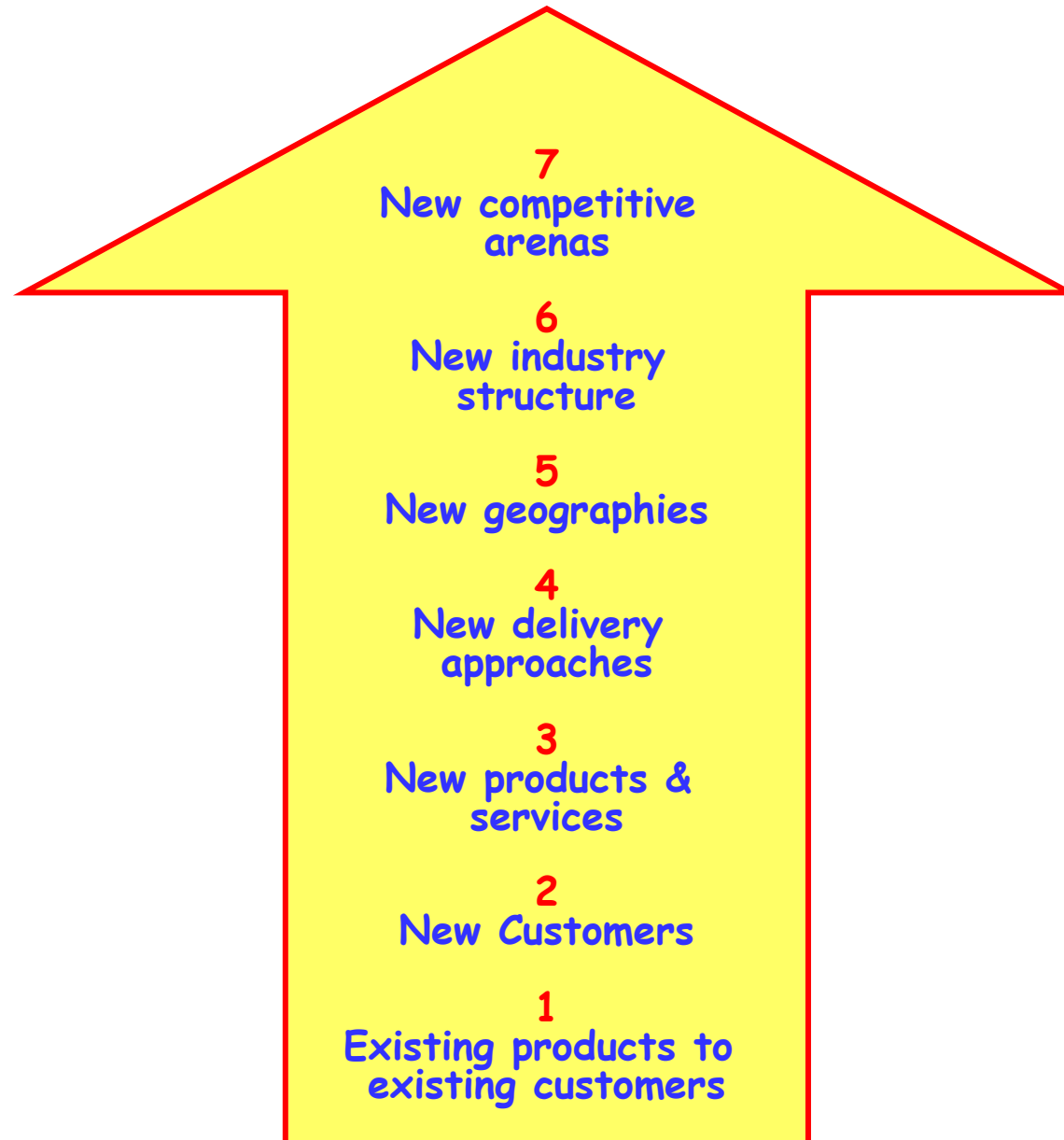
A chain is as strong as the weakest link



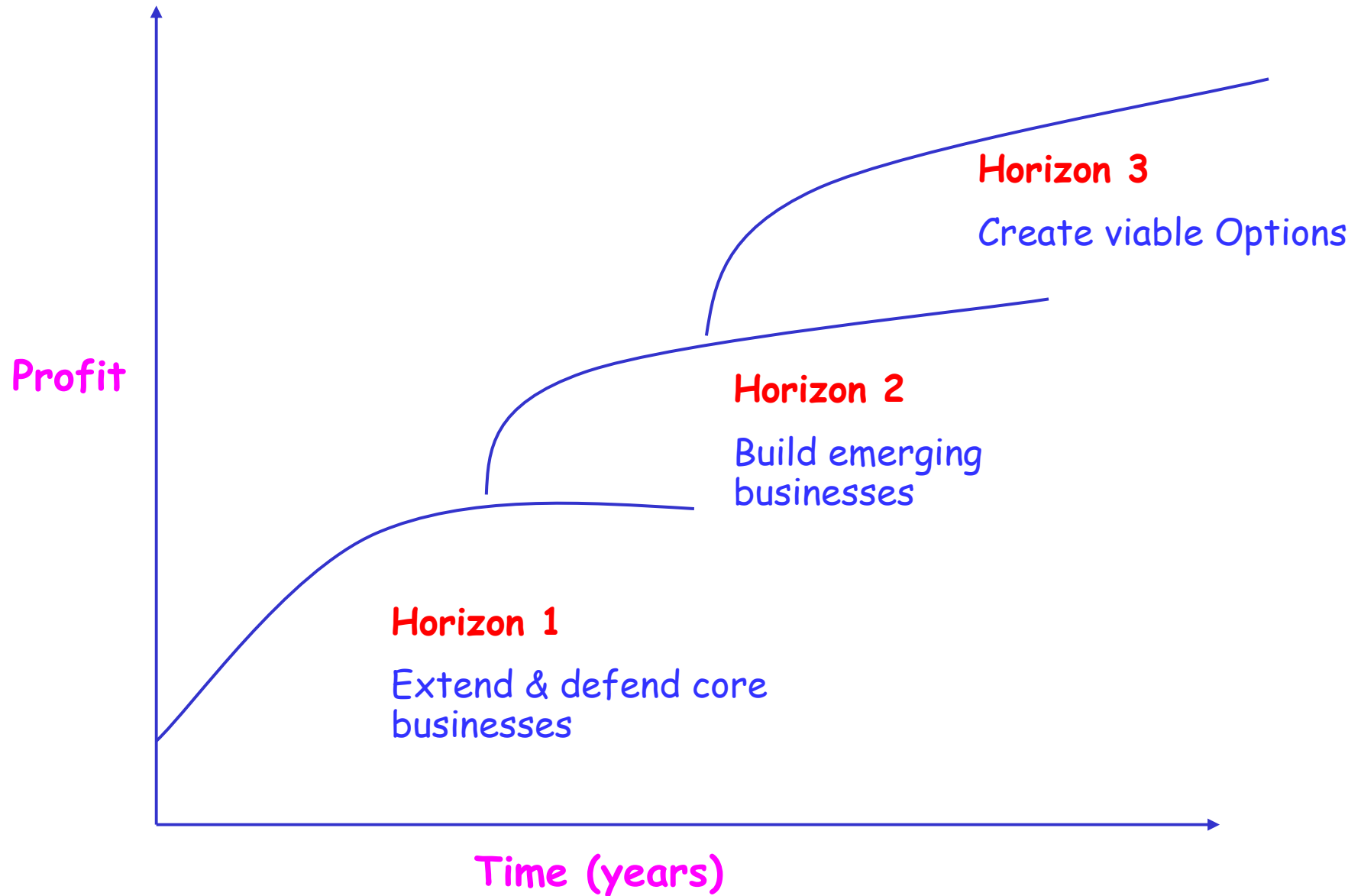
Let us remove the weak links



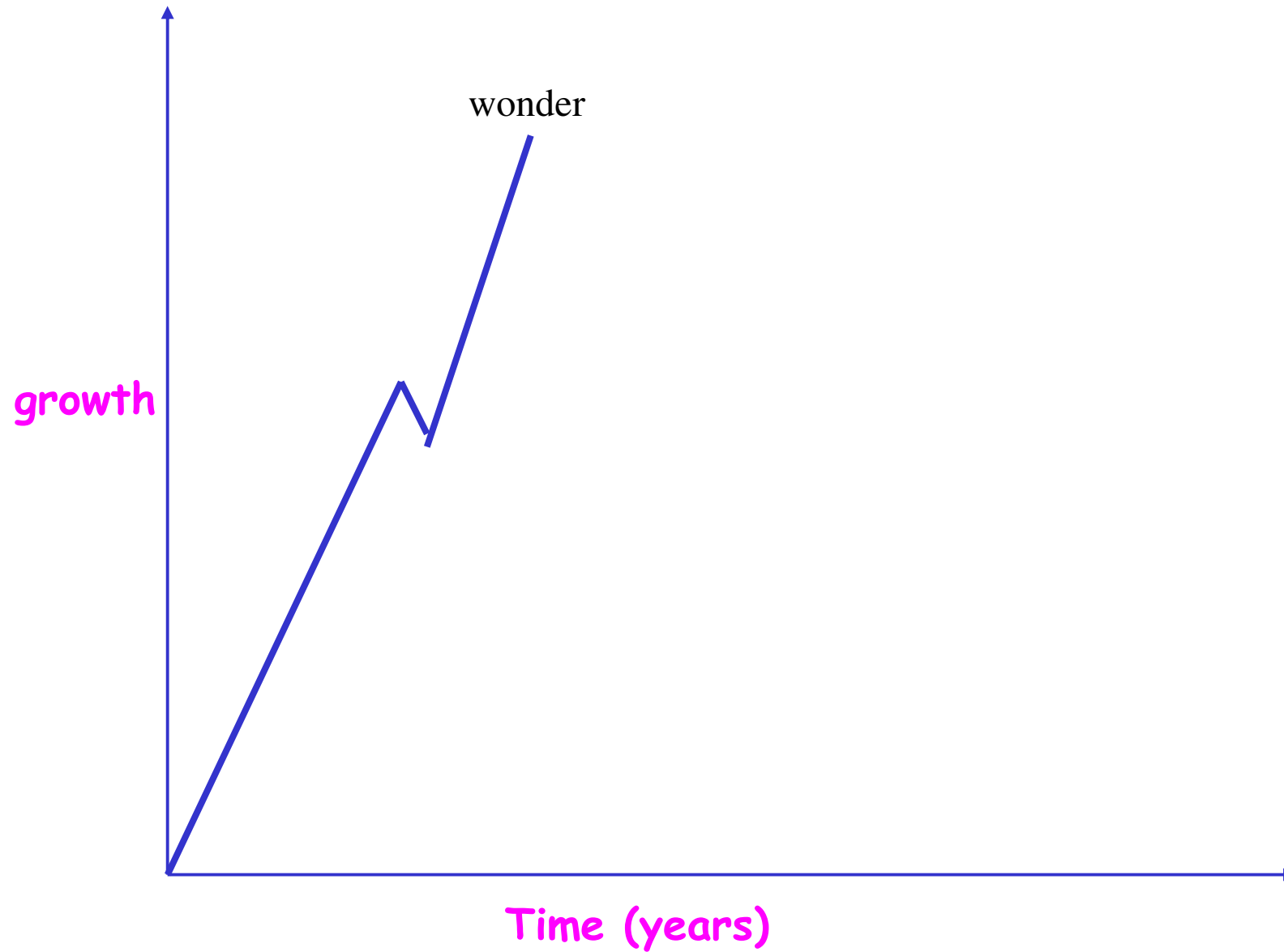
Seven degrees of freedom for growth



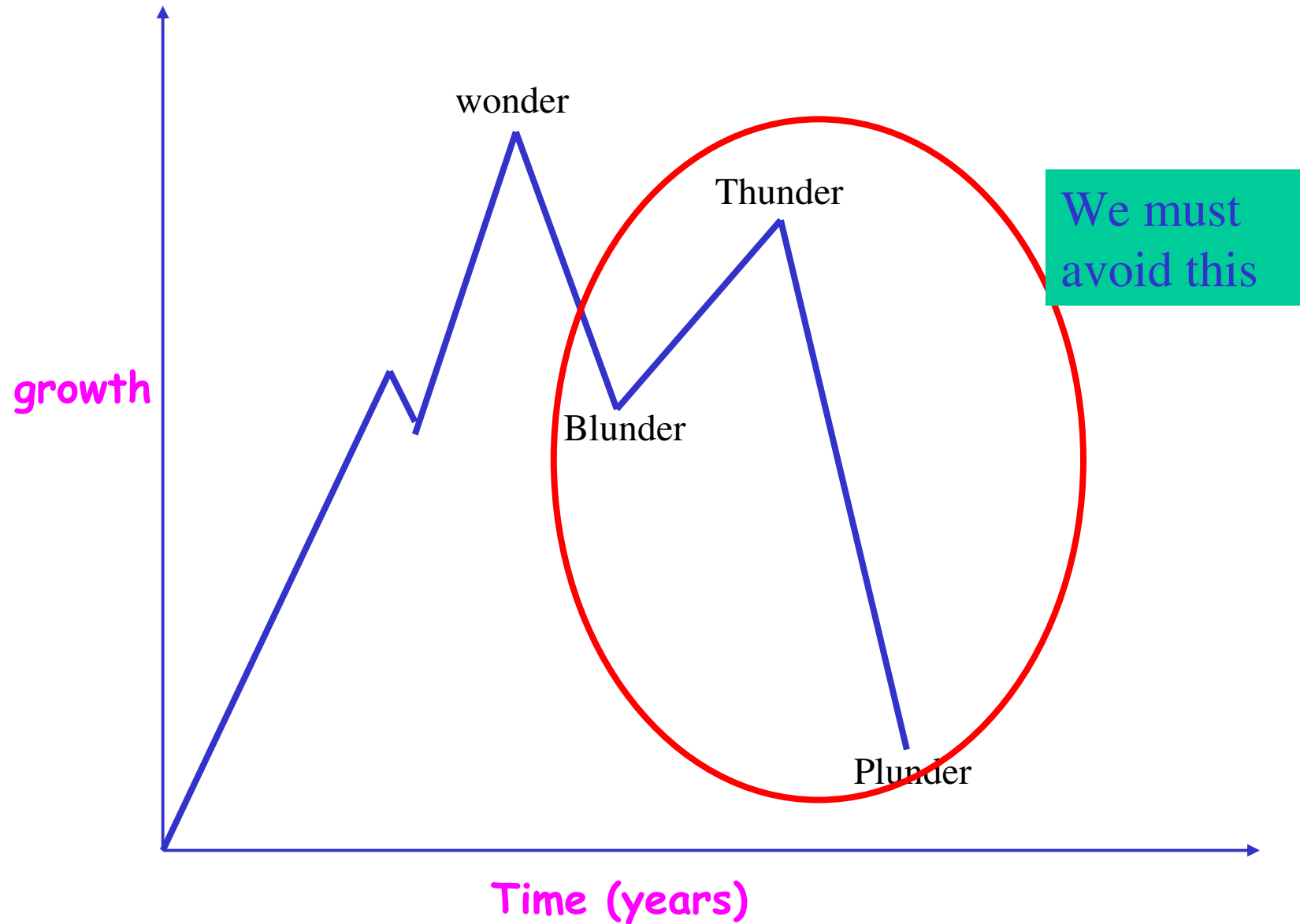
Defining the three horizons



Defining the growth through generations



Defining the growth through generations



A chain is as strong as the weakest link



Let us remove the weak links

And Manage this complex change

To the next horizon of.....

SUSTAINABLE GROWTH

CREATING WEALTH

& STRONG MIDDLE CLASS

& PICK UP EXPERIENCES FROM

W B AND OUR WELL WISHERS

Persistence & not perfection is the KEY

And Delivering Basics



Thank You