

# COST OF DOING BUSINESS IN UGANDA

## Transportation costs comparisons between Kenya and Uganda

Currently Uganda Manufacturers are faced with escalating costs in all areas, compared to their counterparts in Kenya. Following factors have affected the continued viability of the manufacturers:

- **Import duty** on finished products – with the CET and reduction of import duties from within EAC, the overall import duties on finished products has been reduced from **18% {6% ID from within EAC +10%(Ex Duty) +2%(Import Commission)}** to **8%** from Kenya, with number of products having moved from **18% to ZERO%**.
- Exchange Rate – while Uganda has had a depreciation of currency (**from Av 1780 to +/-1850/= per US\$**), Kenyan currency has appreciated from **+/-78/= to +/- 72/= per \$** over the period.
- Interest Rate – moved from **+/- 14% to +/- 18% pa**. In Kenya this ranges within **14%-15% pa**
- Cost of transport of raw material from Mombasa has gone up by more than **50%**; the rail cost of 20ft container in November 2004 was **US\$ 1600**, while in September 2006 it is **+\$2500**. The road transport cost has gone up from **US\$ 2400 to US\$ 3500** per 20 fit FCL.
- The transport time from Mombasa has deteriorated further - from **less than 12 days to +/- 30** days by rail. (This can be as long as 45 days from arrival of container in Mombasa to arrival in Kampala) and has had a major impact on the Cost of Working Capital. Uganda industry requires a minimum of **90 days** stocks (30 days in house, 30 days in transit from Mombasa to Kampala and 30 days in transit from overseas to Mombasa)
- The cost of Power has more than doubled since Jan 2005. Another **increase of +50%** has just been announced effective 1<sup>st</sup> November 2006, and more increase is expected in the near future. This is an inevitable cost increase due to the reduced level of water in the lake. The power bills for organisation like steel fabrication plants have gone up from **Ush 140m pm to Ush 240 pm** and will hit **+/- 380m pm** by the end year – with no material increase in the production volumes.
- Reliability of power – despite increase in the cost of power, there is an issue of reliability. Erratic supply situation results in lower productivity, or businesses switching over to use of own generators. This factor alone may impact industry efficiency by **+/-10%**.
- Likely labour cost increases due to the proposed introduction of the health bills (4% & 4%), and major impact due to revision within the labour laws.

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- Uganda Registered Trucks are restricted to carry only export commodities to Mombasa, but are not allowed to make return journey with cargo to Uganda. This makes transport rate for Uganda trucks more expensive than Kenyan trucks who charge only marginal costs for return loads to Mombasa!
- Added to all the above there are common international factors (affecting both Kenya & Uganda) like increase in the international prices of raw materials which has direct impact on the cost of production.

## How is it in Kenya?

Against this background in Kenya, overall cost of manufacturing has gone down – driven by the following positive factors:

- Appreciating exchange rate
- Increased utilisation of plant and equipment – due to increased demand from within the EAC – due to elimination or reduction of Internal Tariff, and demands from South Sudan & SEA. Most of the industrial sectors have registered growth of +/-15% growth in production, and country has registered a growth of +15% within the region. Uganda is now the largest export market for Kenyan Goods!
- Only marginal increase in the power cost.
- Favourable interest cost.
- Working capital requirement of less than 45 days.
- No increase in transport cost between Mombasa and Nairobi
- No major changes in labour regulations/costs

These positive factors have proved to be a boom for Kenyan Manufacturers

## Specific Focus on the Transport & Logistic arrangements between Mombasa & Kampala

- Overall cost of transport from Mombasa to Kampala is up by 50%.
  - From Mombasa to Nairobi distance 500km – rate \$650 for 20ft container
    - = \$ 1.3 per KM per 20ft container
    - Takes +/- 7 days
  - From Mombasa to Kampala distance 1150km – rate \$2500 for 20ft container
    - = \$2.2 per KM per 20ft container
    - Takes > 25 days (up to 40days!!)
  - Free days allowed by container companies is 30 days, however the cargo to Kenya may take at least 45-55 days before containers are returned, ie 25days extra at \$ 20 per day. The container companies seem to budget 30 days – ie \$ 600 per fcl.
- The rate of \$2500 is made up of following broad figures
  - Transport cost to railways app \$ 1400
  - KPA Charges if cleared in 15 days \$ 123

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- Provision for extra 30 days \$ 600
  - Miscellaneous costs \$ 377
  - TOTAL \$ 2500
- The road transport cost for 20 ft is +/- \$3500.

The Table below shows the impact of all the factors on the cost increases in Uganda, and its impact on the profitability of the industry.

	Costs in Dec 04 RM \$400	Costs in Sept 06 RM @\$400	Uganda Sept 06 RM @\$500	Factors
Typical Factory	\$ per ton	\$ per ton	\$ per ton	
Raw Material per ton C & F MSA	400	400	500	International prices
Import Duty	0%	0%	0%	No major changes, some up from 7% to 10%
Transport from MSA	80	125	125	Transport from MSA & Delays by KPA & Railways
Working capital - Stocks in number of days	60	90	90	
Interest rate	14%	18%	18%	Changes in Interest rate
Cost of working capital on C & F	11	23	28	Increased Stock holding
App Cost of conversion power, labour etc	120	160	160	Power costs & inefficiencies
<b>Total Ex Factory cost</b>	<b>611</b>	<b>708</b>	<b>813</b>	
Typical Margin % on ex factory	<b>20%</b>	<b>17%</b>	<b>15%</b>	Reduced margin to compete
Gross margin (not including fixed costs)	122	120	122	Maintaining cash margin
<b>Ex Factory Price</b>	<b>733</b>	<b>829</b>	<b>935</b>	
<b>Exchange Rate per \$</b>	<b>1,780</b>	<b>1,850</b>	<b>1,850</b>	<b>Depreciating</b>
<b>Selling prices in Ush per ton</b>	<b>1,305,195</b>			

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		1,533,118	1,729,104	
<b>INDEX EX FACTORY COST</b>	<b>100</b>	<b>116</b>	<b>133</b>	<b>+33% increase</b>
<b>INDEX SELLING PRICE IN USH</b>	<b>100</b>	<b>117</b>	<b>132</b>	
<b>INDEX SELLING PRC (with 20% Mgn)</b>	<b>100</b>	<b>120</b>	<b>138</b>	<b>+38% increase</b>

## COMMENTS:

1. Overall cost of manufacturing - increase of 16% , due to internal factors
2. Competitiveness against Kenya and finished good imports may result in lower volumes, thus businesses may not be able to recover the costs. Number of companies have registered decline in volumes, as import duties from Kenya has gone down from 18% to only 8% now and 6% w e f 1/1/2007!
3. Kenya produced goods are landing cheaper than locally produced goods.

## Issues and suggested interventions:

Issues	Interventions
<ul style="list-style-type: none"> <li>Uganda bound goods have long delays at the port.</li> </ul>	<ul style="list-style-type: none"> <li>KPA should provide a separate dedicated service to Uganda bound cargo, with clearly defined “Standards of Service”. KPA charges \$122 per 20ft container &amp; \$155 for 40ft container. This is a lot of monies for which Uganda should demand services.</li> <li>The “Standard of Service” should specify the responsibility of demurrages etc.</li> </ul>
<ul style="list-style-type: none"> <li>There are delays in allocating wagons for Uganda</li> </ul>	<ul style="list-style-type: none"> <li>Both UR &amp; KR should be held responsible for this</li> <li>The SEAMLESS train should be reintroduced, ie 40 wagons allocated for nonstop journey to KLA – so as to have deliver from the time of ship arrival to KLA can be managed in 10 days.</li> </ul>

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<ul style="list-style-type: none"> <li>Overall rate for transport to Uganda is higher on Per KM basis,(\$2.2 Vs \$1.3 for Kenya)</li> </ul>	<ul style="list-style-type: none"> <li>All the costs should be bench marked against the standards.</li> <li>The standards needs to be agreed with Private Sector. In India the rate for 1200 km is +/- \$35 pmt Vs \$125 pmt paid by Uganda!!</li> </ul>
<ul style="list-style-type: none"> <li>Uganda Transporters are required to pay \$2000 deposit in Mombasa??</li> </ul>	<ul style="list-style-type: none"> <li>This is not explained, and is discriminatory</li> </ul>
<ul style="list-style-type: none"> <li>Uganda Trucks are not allowed to carry return cargo from Mombasa</li> </ul>	<ul style="list-style-type: none"> <li>This should not be allowed</li> </ul>
<ul style="list-style-type: none"> <li>Concessioning</li> </ul>	<ul style="list-style-type: none"> <li>Clear bench mark of all costs need to be agreed &amp; signed of by Government &amp; Private Sector.</li> </ul>

The above interventions are urgently required. It is proposed Government forms a Task Force comprising of Ministry of Tourism, Trade and Industry, Ministry of Works and Transport, PSFU, UMA, Freight Association, Kenya Ports Authority, Uganda Revenue Authority, Kenya Revenue Authority, Maersk - Uganda, URA e.t.c with a brief to analyse & bench mark