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Private Sector Position Paper on the Opportunities, Challenges and Interventions to Enhance Ugandan Companies' Exports to the AfCFTA Market

Presented to the

Secretary General – Africa Continental Free Trade Area (AfCFTA)

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This paper was developed by Private Sector Foundation Uganda (PSFU) in Partnership with the Uganda Manufacturers Association (UMA) and the Uganda Chamber of Commerce and Industry (UNCCI).

1.0 Background:

Uganda's private sector is very pleased to welcome the Secretary General of the Africa Continental Free Trade Area (AfCFTA) Secretariat. We thank you for always taking time off your very busy schedule to visit Uganda.

The rationale of this meeting is to highlight to you the opportunities Ugandan private sector has and challenges they face while they try to export to the African Market. We will also highlight what we think are the practical solutions to some of the challenges. Mr. SG, Uganda is considered to be one of the major countries that can sufficiently benefit from the AfCFTA market if our house is put in order.

It is important to note the following facts about Africa that makes AfCFTA **very unique:**

i. **54 Countries** with a population estimated at **1.373 billion persons** in 2021;
ii. largest arable land; **874 million hectares** with only **274 million hectares** under cultivation. **600 million hectares** idle;
iii. large reserves of strategic minerals, abundant aquatic resources, and the youngest population, **60%- 70%** of the population.
iv. Africa's contribution to global GDP has persistently remained low, less than **5%,** standing at **$2.7 trillion**

2.0 Situation Analysis of intra-African Trade and Opportunities abound:

i. Currently, intra-African trade accounts for just **12%** of total trade as compared to **60%** for Europe and North America. Trade among African States is still very low. This presents huge opportunity to scale it up-wards;

ii. The top ten export destinations for Ugandan goods in their order of importance include; United Arab Emirates **(44%),** Kenya **(11.2%),** South Sudan **(8.61%),** Democratic Republic of Congo **(DRC, 6.43%),** Italy **(3.32%),** Tanzania **(2.29%),** Germany **(2.26%),** Sudan **(2.16%),** Netherlands **(1.88%)** and Belgium **(1.74%).** The largely unprocessed to semi processed goods being traded in these countries include; Gold and gold compounds; agricultural products, manufactured products, coffee, tea and spices, fish, trees, flowers, vegetables and iron and steel. The opportunity available across board is for optimal value addition so as to improve on value of exports and exportability of Ugandan goods. **Example,** transforming **roasted coffee beans** into high value instant coffee that can then be more economically and easily traded across Africa. This innovation alone can transform Uganda's highest ever export receipts from coffee of **USD 874.4 Million** to at least **USD 3.0 Billion**, a more meaningful value worth the **8th largest coffee** producer in the world;

iii. Some of the **top ten (10) imports** by indicative value, on average, in the last three years are: machinery equipment, vehicles and accessories-over **USD 1.2 Billion**; Mineral products-over **USD 1.1 billion**; Petroleum Products -over **USD 1.0 billion;** vegetable products, animal, beverage, fats and oils**-over USD 450 million** and base metals and their products-**USD 420 million.** From the import's statistics, Uganda has the opportunity to leverage AfCFTA so as to pitch for imports replacement in areas where there is comparative and competitive advantage. **Example** is the oil and gas refinement for the Region as well as the localized/regionalized production of vegetable products, animal, beverage, fats and oils since arable land is abundant;

iv. On trade in services, Uganda's services are exported to East African Community, **32.6%** to Other African countries not in EAC, **21.8%** to the European Union, **8.6%** to the North America/ Caribbean and **6.5%** to unidentified regions. Professional, Scientific and Technical activities contributed **30.3%** and Transportation and Storage sectors **34.1%** were the major sectors involved in the exportation of services. The services sector is a low-hanging fruit from which Uganda can easily benefit and reverse the trend of low-quality labor exports into Middle East even though, this is yielding high on value in the region of **USD 1.2 billion** annually which means that with quality well aligned exports of trained teachers, health workers and technicians into other parts of Africa, Uganda can easily more than triple the earnings from Middle East.

v. High propensity to import from outside the continent even where there is ample supply capacity in Africa. Example, a country like

Nigeria has a market for milk worth **USD 1.6 billion**, **87%** of this requirement is imported from outside the continent. There is a glaring opportunity for Uganda to pitch milk exports considering that she produces about **2.81 billion litres of milk** with the potential to produce up to **3 billion litres** per year.

vi. At least **70%** earn a leaving from agriculture. Agriculture contributed **24.1%** of GDP in 2021 and was the source for **33%** of export earnings. To create more meaningful inclusive growth, agro contribution to GDP and export earnings should grow to at least **50%.** Such can only culminate with modernization/commercialization of agriculture to see the less that **5% fertilizers up-take** moving to at least **25%.** This naturally requires to invest into fertilizers production for national/regional needs, justifying partnerships for the **Sukulu Phosphates** beneficiation.

vii. Africa continue to carry the **biggest disease burden** on planet earth, no wonder importing close to **USD 10 billion** (2019) in value for pharmaceutical products. The EAC Region imported about **70%** of its pharmaceutical needs valued at **USD 1.3 Billion** (2021). The global pharmaceutical sector value (2021) was estimated at **USD 1.42 Trillion.** The opportunity abound is in the area of facilitating intra Africa trade in pharmaceutical products and medical sundries made in Africa so as to ramp-up capacity for Africa to source its own pharmaceutical products and insult itself against the ugly COVID 19 vaccine nationalism. In Uganda capacity has emerged for the production of antiretrovirals (ARVs), antimalarials, and hepatitis B treatment, ***as you could have seen at Cipla-Quality Chemicals during your visit to the facility.***

viii. Related to the foregoing, strategic investments into the Pathogenic Economy for Africa are key. In Uganda, during the Covid-19 pandemic which struck the whole world, we saw Ugandans develop inventions like Covidex by a one Prof. Ogwang that helped the country deal with the Pandemic. Ugandan Researchers at Makerere University Medical School and at the Uganda Virus Research Institute as well as the agro scientists at the National Agricultural Research Organization have come up with world class interventions for the management of haemorrhagic fevers [mar bug, Ebola etc] and treatment for ticks in animals respectively. Uganda looks forward for collaborative pathogenic research for strategic vaccines and drugs production.

3.0 Strategic challenges for Uganda in being able to leverage the AfCFTA market:

i. **Inadequate Market Information**: most export-ready enterprises lack market information that can be reliable for sustaining exports. This is largely attributed to very limited information across board for goods and services tradable under this arrangement.

ii. **Infrastructural bottlenecks:** connectivity to various parts of Africa from Africa remains a daunting nightmare. Such is the status for roads, railway, air and water transport. Consequently, it is cheaper to import a forty feet container from China to Uganda than exporting from Uganda to Nigeria since the cost parameters for exports into Nigeria can at the minimum be double the cost to China.

iii. **Financing:** Affordable finance is a major impediment for existing local exporters as well as those interested in joining the trade. At least **90%** of private sector credit [average **22%** per annum] in Uganda is from commercial banks while for Asia, the biggest competitor on exports, **100% [less than 7%]** of such export credit is from development finance institutions that result into super competitiveness of imports relative to local production. M/s AFREXIM Bank is trying to bridge the gap. However, it also has structural limitations of not being tailor-made for SMEs who are the majority exporter.

iv. **Standards compliance:** Standards compliance is the visa into export markets for firms. Cost of compliance is still prohibitive for SMEs.

v. **Political volatility:** Governance challenges still bedevil Africa resulting into uncertainties. Without naming countries, much of Africa is still challenged and this affects business.

4.0 Proposed interventions to address the challenges herein above identified:

i. Establishing a robust trade information portal, leveraging ICT so that reliable market information is accessible to the entire continent. This will enable deepening of trade and investments;

ii. On infrastructural deficit across board, time is now for Africa to visualize **Trans Continental Infrastructure Projects** in the areas of **Roads**, **Railway**, **Power**, **Water Ways, Border Markets** and **Air Transport.** In this respect, Africa should be able to engage multilaterally with potential developers based on Public Private Partnership Models that allow for concessioning of such infrastructure so that projects are self-financing to avert infrastructural development backlog. In this respect, Uganda has already developed a Public Investment Financing Strategy that she is ready to deploy in securing the financing of planned programs for National Development Plan Three worth **UGX 411.7 trillion** for five years that create a financing gap of **UGX 33 trillion** that can now be financed through various innovative models inclusive of the suggested one.

iii. **Credit Access through the Afri-Exim Bank**: the financing requirements currently under the Afri-Exim Bank act as inhibitors other than enablers of investment in the African region. The continent needs a kind of lender who understands the local challenges. The rigidity of paperwork should not be a matter which hampers growth in the continent. This can also be done through partnerships with the resident bankers' associations and the local commercial banks in order to trickle down accessibility to the SMEs who constitute at least 70% of the private sector in Africa;

iv. **Fast tracking actualization of the Pan-African Payment and Settlement System – PAPSS** as a centralised Financial Market Infrastructure enabling the efficient and secure flow of money can be a gamechanger once fully operationalized. Unfortunately, it is far from actualization and thus merits every effort to fast track it. It is critical for private sector in Uganda to know, how best can they push Government to actualize this.

v. **SME Export Readiness Training:** Local SMEs require training for market readiness as well as strategic positioning for exports including leveraging synergies to pool capacities so as to satisfy demand. The foregoing merit capacity development training that can be coordinated by the entities responsible for exports at national level;

vi. **De-risking of exports through the establishment of Export Guarantee Schemes:** DE risking exports into volatile markets like DRC, CAR, Somalia, Burundi and South Sudan is a strategic imperative. The private sector is willing and able to pay for the service but requires the **AfCFTA Secretariat** to establish such a product;

vii. **Progress monitoring and evaluation mechanism:** Noting that **AfCFTA** negotiations are managed at the level of regional RECs, it is proposed that the **AfCFTA Secretariat** is intentional in establishing a Progress Monitoring and Evaluation liaison based at the regional RECs to ease coordination.

Conclusion:

(i) The **AfCFTA** is the biggest integration agenda that Africa has ever visualized and implemented. It is still challenged with various bottlenecks that can be resolved once Africa chooses to work strategically on addressing the bottlenecks facilitated by the **AfCFTA Secretariat.**

(ii) As the case is for the EAC /COMESA Trading Regime, the Private Sector in Uganda remain committed to harnessing the opportunities for trade and investment.

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