Opportunities and Challenges in Uganda's Vegetable Oil Industry

SUMMARY

Uganda's demand for vegetable oil is high and has shown continued growth over the years. However, this demand cannot be met by domestic production despite significant growth in Uganda's vegetable oil production which presents opportunities for agri-businesses in the sector.

Efforts have been made through a combination of private and public sector initiatives to boost the sector. Significant focus has been placed on growth of palm oil production in order to reduce reliance on palm oil imports. The opportunities and challenges of developments in the sector are explored further in this insight.

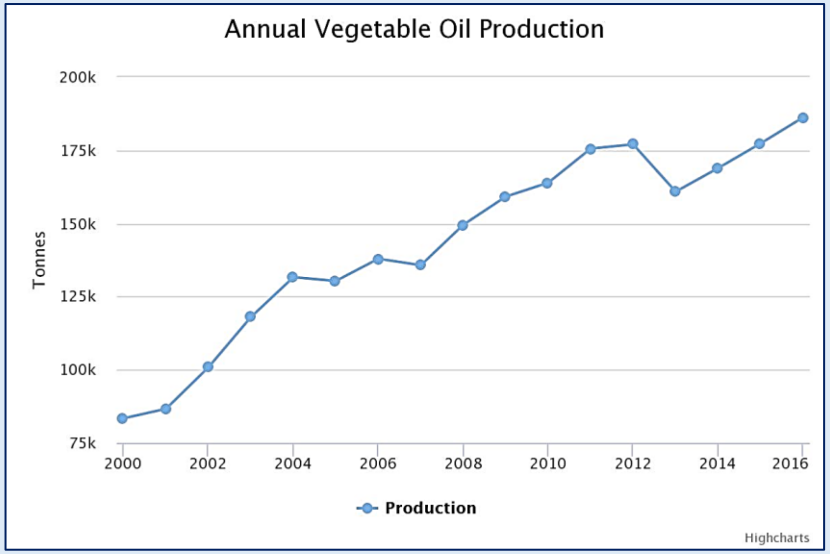
- *Majority of Uganda's supply of vegetable oil is made up of imports.*
- *Public Private Partnerships have played a role in boosting production across the oilseeds value chain.*
- *There is need for further investment in to oilseeds.*

Overview

The agricultural sector contributes about 26% to GDP. Uganda has the ideal environment for a thriving agricultural sector due to its tropical climate and fertile soils. 72% of the country was employed in the agricultural sector in 2012/13, however agricultural activity is still dominated by subsistence farming. Efforts are being made to boost the sector to lift millions out of poverty and increase economic growth.

Within the agricultural sector, the vegetable oil sector has seen substantial growth. Vegetable oils are used for cooking, baking and in manufacturing. Growth in the sector has been spurred by a number of efforts aimed at boosting the sector by various stakeholders including; the government, NGOs, aid organisations and the private sector. The aims of boosting the sector are a mix of private sector profit making goals and public sector aims of reducing Uganda's reliance on imports, improving the livelihoods of rural farmers and promoting economic growth that benefits the poor.

Data from the Food Agricultural Organisation (FAO) shows that over 2000-2013, the average annual growth rate in vegetable oil production was 5.2%. Production from 2014 to 2016 is projected to have grown at a rate of 5%.



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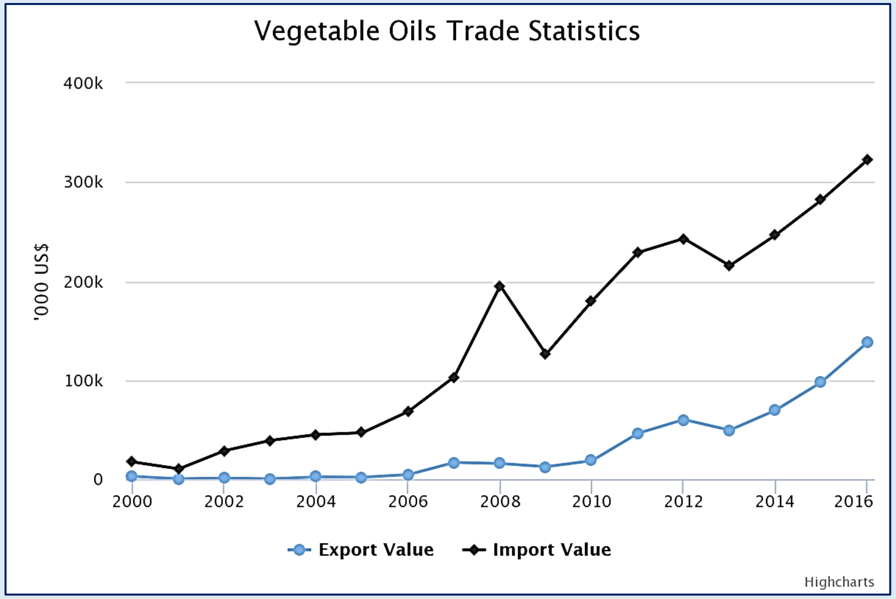
The oilseed sector has also grown alongside the vegetable oil sector through development of the value chain. Production of oilseeds has grown on average by 17% annually from 2011 to 2014. Oilseeds produced in Uganda include sunflower, cottonseed, groundnuts, soybean and sesame seed.

Opportunities

The sector is believed to be capable of playing a role in the development of Uganda and stimulating economic growth for the poor. The growth of demand, and interest of public sector and NGOs in the sector provide opportunities for different stakeholders in the value chain.

GROWING DEMAND

Focus on the vegetable oil sector has been aimed at import substitution. However despite sustained growth in production, imports are still very high, a testament to the increasing demand for vegetable oils that is not met by domestic production. Projections are made for import value at an annual growth rate of 14% and export value at 40% from 2014 to 2016.



Imports are projected to continue to increase without major boosts to domestic production as Uganda's population and their incomes grow. A large proportion of the domestic supply of vegetable oil is made up of imports. The domestic supply of vegetable oil is taken as:

Production Quantity + Imports – Exports Stock variation

Palm oil imports make up the majority of both the quantity and value of vegetable oil imports.

About 78% of the vegetable oil domestic supply quantity is available for food while 22% is used for other non-food purposes such as making soaps. Palm oil imports make up the majority of both the quantity and value of vegetable oil imports. Palm oil is a major ingredient for most vegetable cooking oils. Palm kernels and palm fruit have high yields producing up to 10 times more oil than other oilseeds and thus has been an area of focus for the government.

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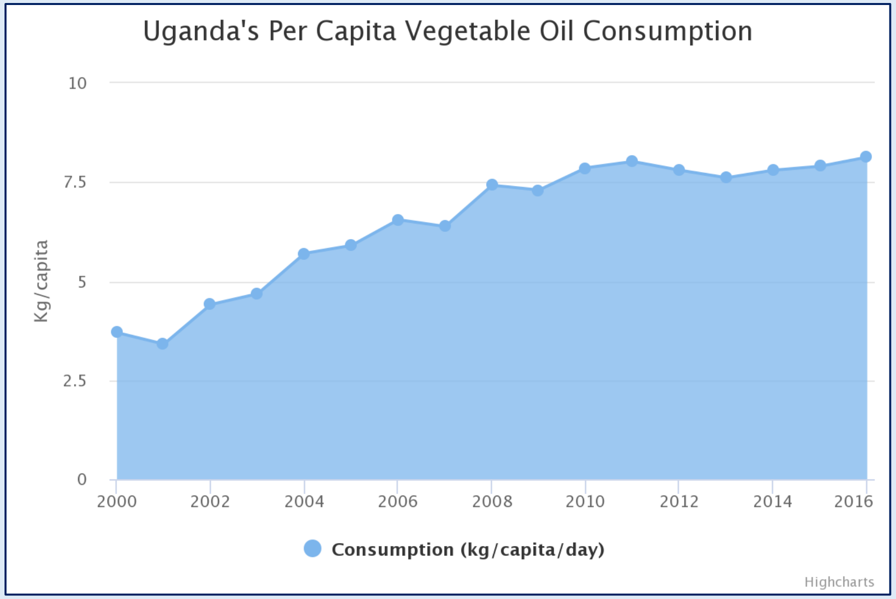
Per capita consumption of vegetable has been rising and is projected to continue to grow as Uganda's population and per capita incomes grows. Per capita vegetable oil consumption is projected to have grown at 2% annually from 2014 to 2016. There will also be increased use of vegetable oils in manufacturing processes, which will provide opportunities for agri-businesses in Uganda to meet this demand.



PUBLIC-PRIVATE PARTNERSHIPS

Public-Private partnerships (PPPs) have played a significant role in transforming the sector. For instance in the sunflower sub-sector, local research institutes have been established that are developing new sunflower varieties. There has also been vertical integration of the value chain whereby processors and millers have started working directly with farmers which has reduced inefficiencies and provided farmers with access to higher yielding varieties.

One of the Public-Private Partnerships is the Vegetable Oil Development Project (VODP), a partnership between the government, the International Fund for Agricultural Development (IFAD) and a private sector partner-BIDCO. The first phase of VODP was aimed at developing oilseeds in Northern and Eastern Uganda, research and development of essential oil crops and introducing palm oil in Bugala Island in Kalangala.

The second phase builds on the work of phase one in addition to oilseed sector development in 45 districts organized into regional hubs of Mbale, Lira, Gulu, and Arua. VODP provides support via extension and value chain support services targeting 136,000 farmers through 11 companies including Uganda Oilseed Producers and Processors Association (UOSPA). In order to provide farmers with access to higher quality seeds, the project is also funding the National Agricultural Research Organization (NARO) to produce foundation and breeder seeds.

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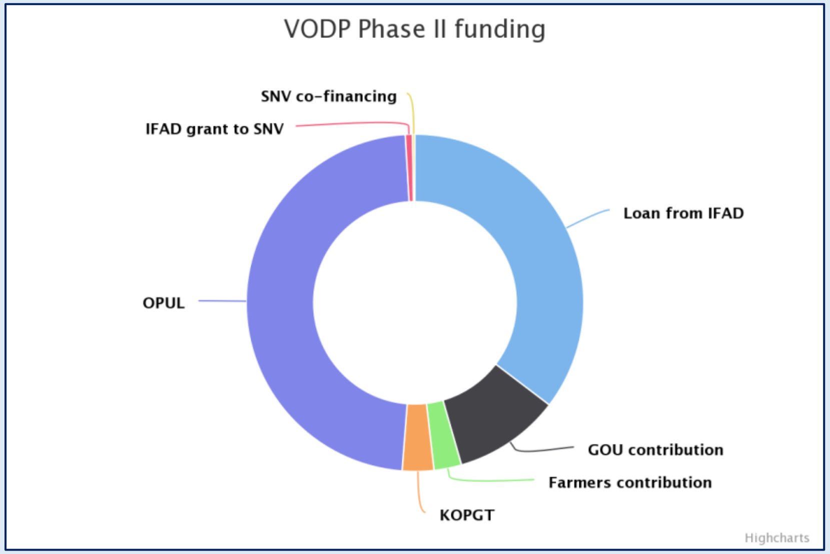
The total cost of the second phase on the project is $147.06 million. This cost is split between IFAD, Government of Uganda (GOU), Farmers contributions, Kalangala Oil Palm Growers Trust (KOPGT), Oil Palm Uganda Limited (OPUL) and SNV. The bulk of the funding has gone towards the oil palm project, aimed at planting 40,000 hectares of oil palm. A relatively smaller proportion has gone towards other oilseeds.



Another notable PPP is between Mukwano and National Agricultural Advisory Services (NAADS) aimed at increasing the productivity and profitability of sunflower production through farmer organizations and by linking farmers to markets. They provide farmers with improved seed varieties and provide technical services in addition to investing in oil milling and refining operations. The investment is over $12 million 77% of which is funded by Mukwano.

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These developments provide opportunities for businesses in the oil seed value chain including; small holder farmers, processors and distributors. Businesses in this sector stand to gain from and extension services and learning opportunities these present, increasing yield and productivity of their operations. The sector shows promise for sustained growth as the demand for vegetable oil in the country grows.

Challenges

POOR SEED QUALITY

One of the challenges affecting the growth of the industry is poor seed quality among some farmers. Poor seed quality results in lower yields and lower oil content. Seeds that provide high yields are hybrids that have to be imported from South Africa or Kenya, resource limitations prevent smallholder farmers from being able to do this without support. Imported hybrids can cost up to UGX90,000 per acre, open pollinated varieties are inferior on yield, oil content and quality.

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INADEQUATE SUPPLY OF SEEDS

Additionally, processors face limitations due to inadequate supply of seeds. For small scale processors, operational costs are high due to irregular power supply and need for adequate storage for oil seeds kept for processing. Small scale vegetable oil producers also tend to have poor packaging of products and difficulties with quality assurance despite the fact that oil quality is an important issue for consumers. There are also difficulties in accessing credit to support production and operational activities.

While PPPs have provided numerous support services, there are concerns that some services may not be sustainable without external funding, making some of the initiatives vulnerable if funding is pulled. For instance, IFAD pulled funding from OSSUP and there are concerns over how they could continue running the platform.

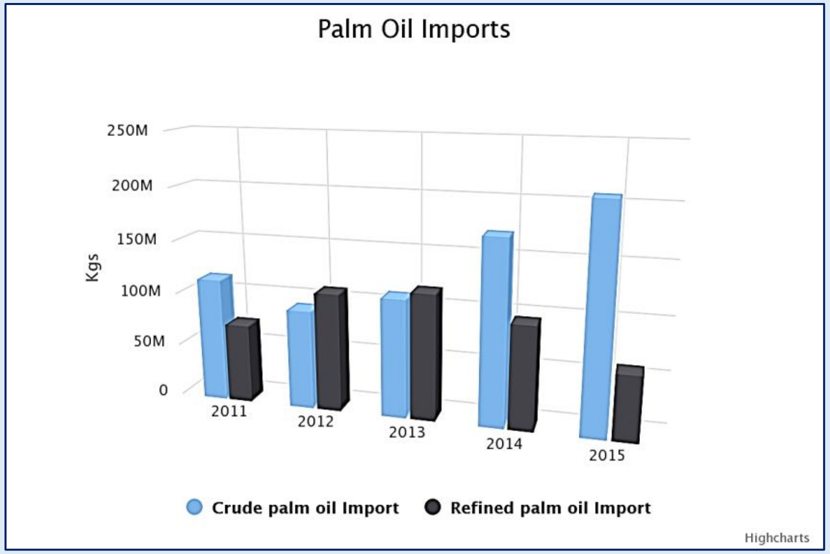
Focus on Palm Oil

Palm fruit and kernels produce up to 10 times more oil than other oilseeds

Majority of the focus in the sector has been in palm oil due to its high yields and high demand. This demand is not likely to subside unless there are changes in demand for palm oil in the manufacturing process and changes in consumer patterns towards preferences for other oils or blends using other oils for cooking. Although attempts have been made to boost non-palm oil in Uganda especially sunflower, there is still room for growth in these sub-sectors. Palm oil production comes with a number of challenges including environmental concerns due to deforestation, and disputes over land grabbing claims in Kalangala. Environmentalists have also pointed to food insecurity as a possible long term issue that may arise from utilizing a lot of land for palm oil growth, mature palm oil trees leave little room for inter-cropping.

The trade value of crude palm oil in 2015 was US$149 million.

Data from VODP indicates that in 2015 palm oil production was approximately 23,000 tonnes representing a mean growth in production of 37% from 2010. However imports of crude palm oil from South East Asia have also risen along with the increased production of palm oil. The trade value of the crude palm oil in 2015 was US$149 million.



In contrast, refined palm oil imports show a declining trend. Private sector businesses continue to import crude palm oil for their production processors, the hectares of palm oil to be planted under the VODP will not meet this rising demand for palm oils. Palm oil seeds from Kalangala supply about 10% of OPULs needs. This highlights the need to boost production of oil from other oil seeds, in order to boost exports and to encourage the use of alternative vegetable oils in production processes.

Oil seeds such as sunflower and soybean are good ventures. Sunflower is naturally drought tolerant and drought tolerant soybean varieties are available, this would mitigate some of the climate risks farmers face. Sunflower is viewed as a healthier alternative to other vegetables and soybean oil can be a substitute for palm oil in cooking oil blends. Further investments will be needed in these oil seed value chains in order to meet the growing demand for vegetable oils.

Future Outlook

Public-Private partnerships in the vegetable oil sector have demonstrated that increased collaboration between multiple stakeholders in agri-business can be useful in increasing productivity and efficiency, and providing benefits to all stakeholders and ultimately the country as a whole. However, PPPs are not without their own challenges and limitations, there is need to align the private sector's profit making objectives with the public sector's socioeconomic objectives. Initiatives in the sector should ensure sustainable business models are in place for long term viability.

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As local production of palm oil and other vegetable oils grows, the aim of reducing Uganda's dependence on vegetable oil imports could be achieved. Additionally, it would increase exports of vegetable oils to other countries which would diversify exports. There is potential for growth in sunflower sector for instance as developed markets become more health conscious and demand for healthier oils, agents could position themselves to provide organic healthy vegetable oils.

With the EAC now setting a preferential tariff for refined edible oils manufactured from locally sourced raw materials, there is increased incentive for manufacturers to use raw materials from the countries they operate in or countries in the region. This provides further opportunities for players in this space.

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