

# Rising Commodity Prices In Uganda And Policy Options



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**T**he price of essential commodities is rising by leaps and bounds. This spells trouble for most of the population that is yet to recover from the devastating COVID-19 pandemic. The price hike of essential household items such as laundry bar soap and cooking oil between June 2021 and March 2022 is noticeable. This has increased the cost of living which threatens the general welfare of especially the poor and lower income families.

According to the Uganda Bureau of Statistics (UBOS) monthly report for March 2022, domestic retail prices of laundry soap and cooking oil escalated faster than other commodities between January and March. The national average retail price for laundry bar soap rose by 34 per cent, up from UGX 4,257 in January to UGX 6,988 per kg in March 2022. Refined cooking oil, on the other hand, rose by 15 per cent up from UGX 10,531 in January to UGX 12,350 per litre by March 2022. With continual price-rise of petroleum products, the situation calls for government to take effective intervention measures to control such price-hikes. This article examines the possible causes of the recent price-hike of essential household commodities such as laundry bar soap and cooking oil and highlights policy options government can adopt in the short, medium, and long term to cushion citizens.

Several reasons have been advanced to explain the recent price increase on essential commodities. Among others include an upsurge in the price of crude palm oil which is the intermediate raw material used in the production of among other products laundry bar soap and

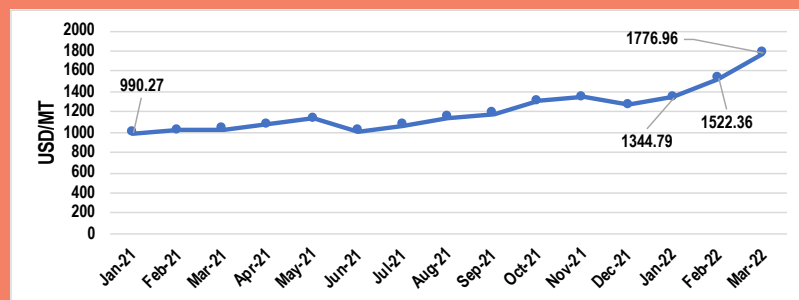
refined cooking oil; government decision to impose a 10 per cent import duty on crude palm oil in July 2021 that increased production costs; and the rising fuel prices leading to higher transportation costs.

Uganda remains a net importer of intermediate raw materials including crude palm oil despite a government-initiated palm oil project started 20 years ago in Kalangala Islands. According to the 2020 datasets from the Observatory of Economic Complexity (OEC), Uganda imported crude palm oil worth USD319m from Indonesia, Malaysia, Kenya, Thailand, Singapore, Cambodia, Colombia, and Peru. It is the third most imported intermediate item in Uganda after gold and refined petroleum.<sup>1</sup> According to a statement<sup>2</sup> from the Ministry of Finance, the effects of COVID-19 restrictions disrupted global supply-chains leading to shortage and higher transport costs. In addition, adverse weather conditions in South America is also highlighted as responsible for low production that raised the demand for crude palm oil outstripping supply. The ongoing Russia-Ukraine war and its attendant effects has further worsened the situation as the two countries accounts for half of the global supply of palm oil alternatives. Figure 1 illustrates a solid increase in the global crude oil prices.

<sup>1</sup> The top imports of Uganda are Gold (\$1.97B), Refined Petroleum (\$651M), Palm Oil (\$319M) retrieved from <https://oec.world/en/profile/country/uga>

<sup>2</sup> See, <https://www.finance.go.ug/sites/default/files/press/PRESS%20STATEMENT%20ON%20THE%20RISING%20PRICES%20OF%20ESSENTIAL%20COMMODITIES.pdf>

Figure 1: Monthly Global Price Trends for Crude Palm Oil (USD per metric ton)

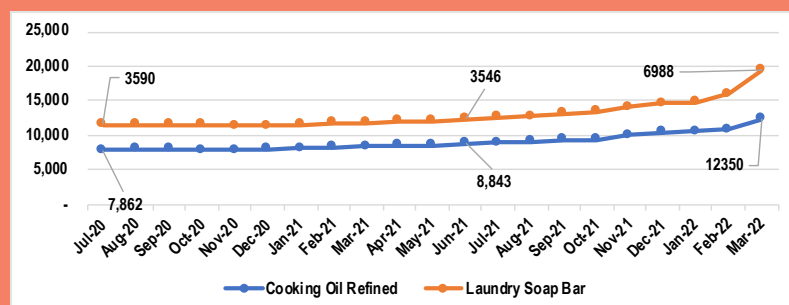


Source: Authors computation based on World Bank Commodity Market Database (2022)

The above figure shows a steady increase in the prices of crude palm oil by 36 per cent between January 2021 and January 2022 and a continuous increase in the subsequent months. As a result, prices of essential household commodities have increased significantly and raised overall inflation. This further reduces the consumption patterns especially for the poor depriving them of access to essential items such as soap.

The prices of cooking oil and laundry bar soap have continued to increase since July 2021. When prices of a commodity rise, the seller suffers losses hence causing shaky ground for sustainability of traders and small-scale businesses in the marketplace. Without any quick solutions, many small business owners counting losses could be unemployed in the long run and worsen the poverty indicators.

Figure 2: Monthly Trends in the retail price for laundry soap and cooking oil (July 2020-Mar 2022)



Author's construction using data from UBOS (2022)

As shown in Figure 2 above, the retail price for laundry soap and cooking oil was relatively stable until June 2021. Over the past 9 months, there has been a 40% and 97% increase in the price of laundry

bar soap per kilogram and cooking oil per litre respectively. This means that households not only have to reduce their consumption patterns but also adjust their budgets or consider opportunity costs.

The palm oil crude price increase aside, the government decision to impose a UGX200 excise duty per litre of cooking oil and a 10% import duty on the crude palm oil in July 2021 increased production costs. Even when the international supply chain challenges get resolved, we shall continue to see a marked-up price since many of the products affected have inelastic demand. Ultimately, the final consumer bears the burden of this tax. Other factors remain constant; we are observing a price increase as high as 34% of soap yet the import duty is 10%. The extra 24% appears to be a result of the predatory nature of the business community exploiting consumers.

High commodity prices increases the cost of living and therefore undermine the government's poverty reduction efforts. If there is no immediate government intervention in this crisis, likely, the poor are only going to become poorer and the vulnerable proportion of the population will slide below the poverty line.

Uganda's situation has been cushioned by moderately stable food prices due to a good climate and consistent production. Consequently, the impact of food prices which would otherwise form the larger part of core inflation has been restricted by an increase in commodity prices. The evidence available suggests that the recent increase in

the prices of domestic commodities, especially laundry soap and cooking oil, is explained by domestic and external factors.

## Recommendations

- Support local farmers to increase the production of palm oil substitutes. The government through its various programs such as Youth Livelihood Program, Emyooga, and the recently launched Parish Development Model should support farmers to increase the production of alternatives such as sunflower and soybeans to supply the manufacturing industry. According to the UIA Report 2021, the annual production capacity of edible oils in Uganda is 40,000mt, with aggregate demand of 120,000mt presenting a deficit of 80,000mt. To meet this deficit, the government should prioritize support for the Kalangala Palm Oil project to boost domestic production of palm oil and its alternatives to reduce the country's dependence on imports. These are essential raw materials for making laundry soap and cooking oil. This will not only boost the economy's production sector but will also cushion against the importation issues in the long run.
- Government should waive the 10 per cent import duty on crude palm oil. As a short-term measure, the government can scrap this tax that could provide some temporary relief on the cost of production and help stabilize the retail prices of these commodities. The Government should also reconsider its regulatory role to ensure that this waiver is reflected in the final consumer prices.

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