

GOVERNMENT OF UGANDA
INITIATIVES FOR MSME
POLICY DEVELOPMENT

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BACKGROUND

- The 1st attempt at understanding the MSME Sector in Uganda started way back in 1995
- During this year, a study was funded by USAID and conducted by Impact Associates
- The key finding was that there were about 800,000 MSMEs in Uganda

- The other findings of this study included:
 - The Sector employs more than 90% of off-farm labour
 - The bulk of these employees are involved in commerce
 - The following were the corresponding percentages:
 - commerce: 63%
 - Manufacturing: 29%
 - Services : 8%

The Micro and Small Enterprise Policy Unit (MSEPU)

- This came into being in 1996, in the then Ministry of Planning
- It was a response by Government to the general absence of policy oversight over MSMEs
- The Unit was supported by the Dutch Government who attached an SME Expert for a period of three years

- The main task of MSEPU was :
- To facilitate policy formulation, reform and co-ordination in favour of MSEs
- To create a strong voice for MSEs to stimulate co-operation and co-ordination at all levels
- To promote appropriate financial services, access to training and modern technology, trade and investment and rural development related to MSEs
- To create and maintain a data base for monitoring progress in the sector and for assessing impact of policies
- To create awareness on private sector development in general and that of the MSE sector in particular

- One of the key challenges of MSEPU was develop a working definition of MSMEs. Accordingly, the following definition was adopted:
 - micro enterprises are defined as business undertakings employing less than 5 people, often family members; value of assets excluding land, buildings and working capital is below Ush 2,5 million; annual turn over is below Ush 10 million, which is the threshold for business related tax.
 - Qualitative characteristics of micro enterprises are that they operate seasonally, usually they are not registered formally and hence have no access to formal services. They do not pay enterprise-related taxes and their management is rather weak in terms of both education and administrative capabilities.

- Small enterprises on the other hand were defined as enterprises employing a maximum 50 people; the value of assets excluding land, buildings and working capital is less than Ush 50 million; annual turn over is between Ush 10 – 50 million which is the tax bracket for 1% business tax on annual turn over.
- Other qualitative characteristics of such enterprises are that they operate the whole year round, are formally registered and taxed and owners/managers are educated and/or trained.

The proposed policy proposals for MSME Development in Uganda

- After a three year period (1999) the following policy proposals were made in the following areas:
- creating an enabling business environment
- improving financial service delivery
- improving training, advice and extension services
- promoting technology development and transfer
- disseminating information

- During 2000, the prominence of MSMEs was overshadowed by the GoU interest in developing a broad strategy for the entire private sector
- This process led to the development and implementation of the Medium Term Competitive Strategy (MTCS) for the private sector 2000 – 2005
- The MTCS was intended to address policy constraints to private sector development without discrimination.

- The MTCS focused on the following policy areas:
 - Infrastructure provision
 - Access to Financial Services
 - Commercial Justice Reform
 - Institutional Reforms
 - Addressing Export Specific Impediments
 - Improving Business Environment for SMEs
 - Private Sector Growth in the Context of Globalization
 - Addressing cross cutting issues

- The MTCS process had an impact on the policy formulation for MSMEs, namely:
 - MSMEs could not receive prominence as early on when their stand alone policy was being proposed
 - Only a few areas of their original policy area proposals were reflected in the MTCS
 - MSEPU which hitherto was focusing on MSMEs was now given a broad horizon to provided policy oversight to the entire private sector

- As a result, more attention was placed on addressing areas of need for MSMEs, especially BDS
- UNDP and Norwegian Government were crucial in this effort
- The focus has been on the following areas:

- Institutionalization of MSME support hubs (DPCs)
- Stock taking of District needs (District Profiles)
- Support to the establishment of informal, micro and small enterprises coordination body (MSE Forum)

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REFORM OF THE LEGAL AND REGULATORY ENVIRONMENT FOR BUSINESS

- The Deregulation Project has been on-going and has resulted into the following:
 - Development of sample regulatory reforms: Simplified business registration and licensing system in MLOG
 - Building capacity in Government to implement and monitor regulatory reforms
 - Development of Regulatory Best Practices
 - Public awareness
 - A number of laws have been reviewed: Companies Act, Personal Property Securities Act, Insolvency Act, Mortgage Act, Cooperative Act

- A study on the cost of doing business in Uganda was undertaken in 2003 and a number of recommendations made:
 - Abolish Memorandum and articles of association
 - Amend advocates law to remove monopoly
 - Provide a simplified tax regime
 - Enable all collateral to be registered

Access to Finance

- A lot of work has been done in the micro finance lending
- Proposal on how to effectively address SME finance including leasing were tabled to Cabinet

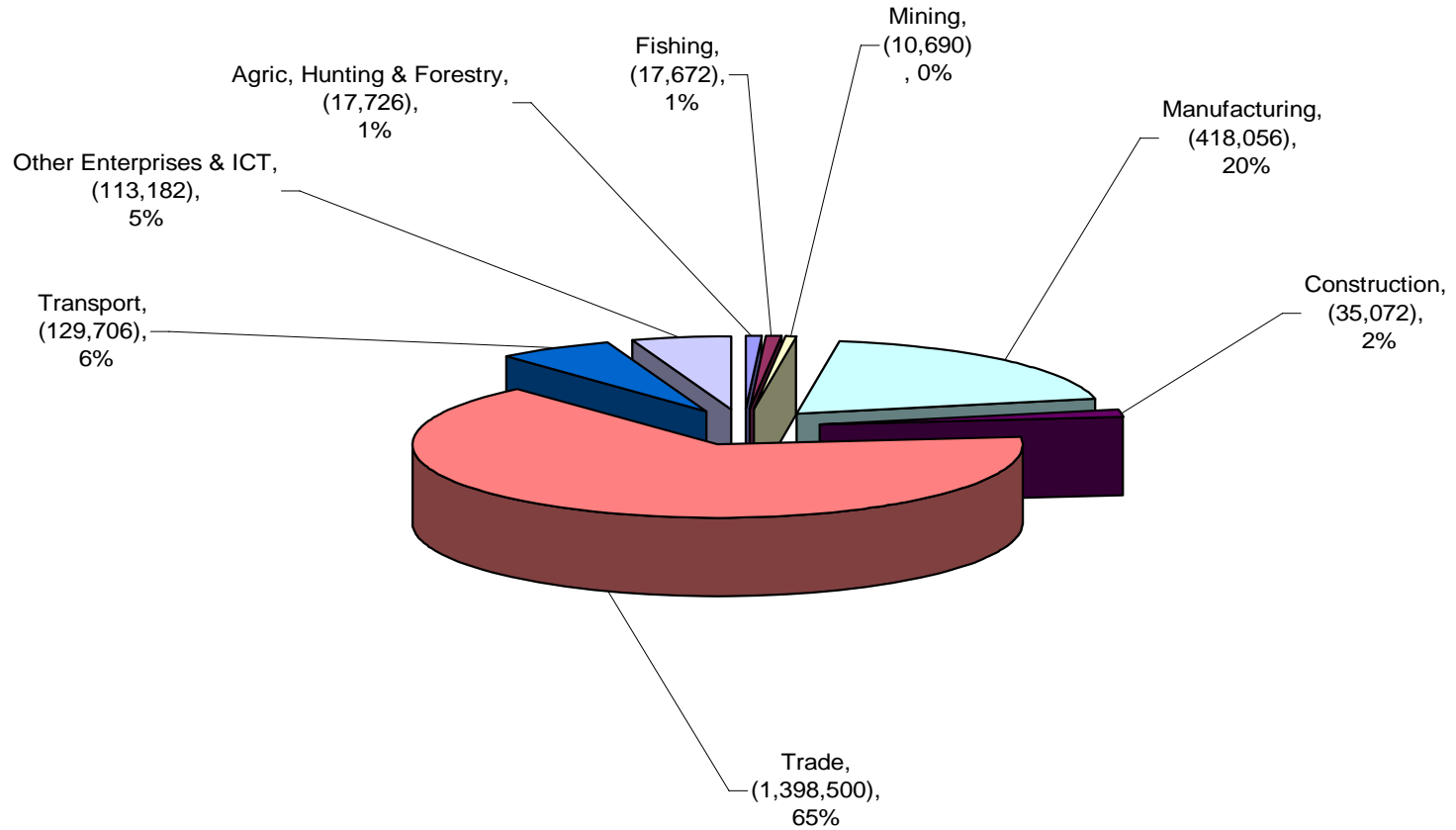
STATUS OF MSMEs IN UGANDA BY 2002

- A baseline to provide a once and for all comprehensive data on MSMEs was carried out in 2002. An MSME questionnaire was “piggy backed” on Population and Housing Census questionnaire

REGIONAL DISTRIBUTION OF MSMES IN UGANDA, 2002

Region	No. Enterprises	%
Northern	362,192	16.9
Western	482,102	22.5
Eastern	540,608	25.3
Central	754,794	35.3
Total	2,139,696	100

Sectoral Distribution of MSMEs in Uganda, 2002



■ Agric, Hunting & Forestry ■ Fishing ■ Mining ■ Manufacturing ■ Construction ■ Trade ■ Transport ■ Other Enterprises & ICT