

STATEMENT BY

MINISTER OF STATE FOR FINANCE (INVESTMENTS)

HON. PROF. SSEMAKULA KIWANUKA (M.P),

AT THE

CONSULTATIVE WORKSHOP ON THE

DEVELOPMENT OF A NATIONAL MICRO, SMALL

AND MEDIUM ENTERPRISES (MSMES) POLICY

DATE: 14TH NOVEMBER, 2006

VENUE: KAMPALA SERENA HOTEL, KATONGA ROOM

**The Representative from Commonwealth Secretariat (COMSEC)
Colleagues from the Ministry of Finance and from other Ministries,
The Executive Director of NAADS,
The Executive Director of Enterprise Uganda,
The Representatives from the Banking and Financial institutions,
The MSME Development stakeholders,
Invited Guests,
Ladies and Gentlemen,**

It is my pleasure and honor to be presiding over the opening of the consultative workshop on the development of a national policy for Micro, Small and medium scale enterprises (MSMEs). I am particularly delighted because about one year ago, I wrote to the Commonwealth Secretariat requesting for technical assistance to develop an MSME policy for the Agro-inputs sub-sector. The request was approved but prior to the implementation of the project, a COMSEC mission came to Uganda in June 2006 to consult key stakeholders on its implementation. During the preliminary consultations, it emerged that there was no broader national policy for MSMEs that would guide interventions in sub-sector. Most key stakeholders, agreed that a national MSME policy was an urgent priority and my ministry was requested to broaden the terms of reference for the technical assistance to develop a national MSME policy and strategy. This is how we approached donors for support.

We would like to thank the COMSEC for accommodating our request at such short notice. This is a clear sign of appreciation of our national priorities and development needs.

In order to speed up the implementation of the project, I designated three local agencies: Enterprise Uganda; Private Sector Foundation Uganda and National Agricultural Advisory Services (NAADS) to be responsible for the administration and coordination of the exercise in the country. I put particular emphasis on NAADS because improving the performance of the Agribusiness MSMEs is vital because agriculture still provides 80% of the rural work force and 85% of Uganda's export earnings.

Your turn up in large numbers for this important national consultative workshop clearly shows consensus on the need to identify policy reforms that are needed to improve MSME performance and assist in the creation and growth of enterprises. The economic environment in Uganda today provides various opportunities in all key sectors. For example agriculture has extensive value chains of non-farm enterprises (agri-input suppliers, agro-processing, financiers, marketing, etc.) and supporting these businesses to become more competitive will benefit the sector immensely. Small-scale mining is widely practiced illegally with serious consequences for the health of miners and the degraded environment. Regularizing

the sector through targeted business development programmes will reverse this. Informal and Adhoc interventions in Uganda's MSME sector in rescuing failing enterprises which have hitherto been done need streamlining.

Despite the existence of business, vocational, management skills institutions, member business associations, chambers of commerce up to the grass-root levels and other donor support programmes for MSME development in the country, there is sometimes conflict between agencies, Government departments and ministries which derails efforts to develop the private sector.

The outcome from this workshop will give a new platform for Ugandans to take charge of their own destinies in a productive and proactive manner. Forums like this that bring different stakeholders to talk about a common subject, earning a livelihood and particularly poverty alleviation in rural areas, serve to reassure the government that Ugandans are prepared to take advantage of the improved macro-economic climate in the country.

Ladies and gentlemen,

Uganda's MSMEs that number over 800,000 which are largely informal, employ about 90% of the total non-farm economically active population estimated at approximately 1.5 million people (MTCS, 2001). Comprising over 90% of Uganda's private sector, MSMEs are considered to be critical for accelerating

economic growth, and for generating productive jobs, increasing export revenues/import substitution and thus balancing the terms of trade, and also providing a good source of tax revenue for national socio-economic development.

In light of this, several economies including Uganda have since directed their focus to developing micro, small and medium enterprises (MSME's) as part of a comprehensive plan to enhance economic growth and development.

In Uganda's case: MSME activities represent on average 75% of Uganda's annual GDP, this in essence implies that they are significant in generating domestic revenue; have great potential of complementing large scale industrial requirements, which leads to the formation of linkages; the rural sector is mainly characterized by small income earners with limited business start-up capital, thus the only plausible way to tap from such resources would be through creation of MSME's.

The growth and innovation of MSMEs depends on the prevailing general national and regional conditions (the business environment) and the entrepreneurial conditions (entrepreneurial opportunities and entrepreneurial capacities of individuals). The Government of Uganda has, during the last decade, embarked on a comprehensive Economic Reform Programme aimed at providing the necessary market incentives to encourage private sector participation in economic development. Exchange rate liberalization, privatization, tax incentives, deregulation of interest rates and trade liberalization are some of the measures

introduced by the Government to create an enabling environment for private sector growth and development.

The government is aware that the environment under which MSMEs perform is harsh. The bankers are reluctant to lend to indigenous MSMEs; the available credit under microfinance institutions is also quite expensive. I however want to assure you that the government shall continue to seek ways to address the challenges faced by MSMEs such as weak, fragmented institutional support framework; limited access to affordable capital; lack of entrepreneurship and business management skills; weak technology institutional infrastructure; inadequate and expensive supply of power and telecommunication facilities; etc.

Given that MSME's in Uganda have been recognized for their significant role in employment creation, generating domestic revenue and forming a basis for developing the industry sector; the formulation of a comprehensive policy will provide mechanisms through which small businesses can operate more effectively, ensure efficient institutional frameworks to eliminate business constraints and also ensure the sustainable growth of these MSME's.

I would however want to underscore the fact that any Government interventions in easing difficulties that SMEs encounter when doing business are meant to provide an enabling environment for MSMEs to operate. Sustainable availability of

affordable credit can only be a reality when we as a nation promote entrepreneurship skills, deepen the culture of savings and prompt repayments of loans, all of which are currently very low.

My Ministry is therefore proud to be associated with the development of a national MSME policy that will encourage MSMEs to adopt competitive business practices and contribute to improving productivity in Uganda. With more Ugandans engaging themselves in productive gainful economic activities, we should see more financial institutions shift their investments into the private sector in general and more specifically to the micro, small and medium scale enterprises.

As I conclude, I would like to once again thank the Commonwealth Secretariat for recognizing the challenges indigenous MSMEs are facing and for the technical assistance that they are providing to the Government of Uganda to undertake this important national project. I would also like to commend Enterprise Uganda; Private Sector Foundation Uganda and NAADS who have been coordinating this project on behalf of the Ministry of Finance.

Once again, I am happy to see all of you come to spend a full day discussing issues that address our MSME challenges. I wish you good deliberations. I now have the honour to declare the consultative Workshop on the development of a national MSMEs policy open. Thank you.