



THE REPUBLIC OF UGANDA

MINISTRY OF TRADE, INDUSTRY AND COOPERATIVES

## Contact

MINISTRY OF TRADE, INDUSTRY AND COOPERATIVES

Farmers House, Plot 6/8 Parliament Avenue

P.O. Box 7103, Kampala, UGANDA

Tel: +256 41 4314 000, +256 41 4230 916

Fax: +256 41 347286

Email: [mintrade@mtic.go.ug](mailto:mintrade@mtic.go.ug); [ps@mtic.go.ug](mailto:ps@mtic.go.ug)

[www.mtic.go.ug](http://www.mtic.go.ug)

## UGANDA MICRO, SMALL AND MEDIUM ENTERPRISE (MSME) POLICY

*Sustainable MSMEs for Wealth Creation  
and Socio -Economic Transformation*

AUGUST 2015



Handwerkskammer  
zu Köln



**Annex 2: Table 2: Comparative analysis of MSME definitions in EAC countries**

	Kenya	Tanzania	Uganda	Rwanda	Burundi
MSMEs definition using number of employees					
Micro	1 -10	0-5	1-4	1-3	-
Small	11-50	5-49	5-50	3-30	-
Medium	51-100	50-99	50-100	30-100	-
MSMEs definition using capital investments					
	Kenya (Kshs)	Tanzania (Tshs)	Uganda (Ushs)	Rwanda (Frw)	Burundi
Micro	-	0-5m	0-10m	0-0.5m	-
Small	-	5-200m	10-100m	0.5-15m	-
Medium	-	200-800m	100-360m	15-75m	-
MSMEs definition using capital Turnover					
	Kenya (Kshs)	Tanzania (Tshs)	Uganda (Ushs)	Rwanda (Frw)	Burundi
Micro	<4-5 m	-	0-10m	0-0.3m	-
Small		-	10-100m	0.3-12m	-
Medium		-	100-360m	12-50m	-

Source: World Bank report (2012)

Note: m refers to millions



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Ministry of Trade, Industry and Cooperatives (MTIC)

August 2015

<b>6. Enhance entrepreneurship, vocational, business and Industrial development skills</b>	Improve linkages and sustainable collaboration	<ul style="list-style-type: none"> <li>• Number of annual skilled spinoffs or Interns from academia to entrepreneurship</li> <li>• Percentage of vocational and technical schools skilled labour force passed out per year</li> <li>• Number of Industries offering industrial training programs</li> </ul>
	Support on going initiative by MTAC in developing entrepreneurial competencies and skills attitude	<ul style="list-style-type: none"> <li>• Number of new business establishments</li> <li>• Percentage of women, youth and PWDs business startups</li> <li>• Number of employments created</li> </ul>
	Improve and strengthen skills for employability initiatives supported by UIRI	<ul style="list-style-type: none"> <li>• Number of MSME attaining workers pass certification</li> <li>• Number of institutions offering the training opportunity</li> <li>• Number of employments created</li> </ul>
<b>7. Enhance gender equity, inclusiveness and environmentally friendly businesses for sustainable development</b>		

4. <b>Support access to markets and business information</b>	Improved local content consumption implementation strategy	<ul style="list-style-type: none"> <li>• Number of industries consuming MSME products</li> <li>• Rate of growth MSMEs from one level to the other</li> <li>• Number of investments created</li> </ul>
	Transformed MSMEs businesses into modern and high value economy	<ul style="list-style-type: none"> <li>• Number of MSMEs participating in local and national exhibitions</li> <li>• Number of products promoted for export and international exhibition</li> </ul>
	Improved product branding and packaging for sustainable supply chain management	<ul style="list-style-type: none"> <li>• Number of products accessing market</li> <li>• Number of brands developed</li> <li>• Percentage increase in sales volumes</li> </ul>
	Increased access to information and data storage	<ul style="list-style-type: none"> <li>• MSME product and service Directory established</li> <li>• Number of MSME products and services on the data bank</li> </ul>
5. <b>Enhance access to credit and financial services</b>	Ensure flexible financial and credit services available	<ul style="list-style-type: none"> <li>• Number of entrepreneurs accessing credit facilities</li> <li>• Rate of access to credit services</li> <li>• Rate of growth of businesses</li> </ul>
	Improve information access	<ul style="list-style-type: none"> <li>• Rate of MSME accessing affordable credit</li> <li>• Level of risk</li> </ul>

## FOREWORD



The Micro, Small and Medium Enterprises (MSME) sector plays a crucial role in the economic growth of Uganda with its GDP contribution standing at over 70%, and its employment and job creation rising to 90%. The MSMEs however have a high mortality rate and grapple with wide ranging challenges including; lack of information, standardization and product certification, and legal, institutional and attitudinal challenges which impede the growth and development of the full potential of the MSMEs.

The theme of the Government National Development Plan II is, “*Growth, Employment, and Socio-economic Transformation for Prosperity*”. It is against this background that the Government through the Ministry of Trade, Industry and Cooperatives has developed the MSMEs Policy to address the bottlenecks to MSMEs development and guide Private Sector as an important vehicle for knowledge exchange, technology and innovation development, research and investment transfer, to significantly contribute to sustainable and efficient value addition production.

The Ministry of Trade, Industry and Cooperatives recognises the contribution of all the stakeholders cited in this Policy document and shall coordinate, support, develop and promote the implementation of MSMEs Development Policy Strategic Framework for 2015 -2020. Our desire is to garner the cooperation, participation and involvement of all stakeholders in implementation process of this Policy, with an aim of making a contribution towards attainment of the national objectives of vision 2040.

The formulation of this Policy has been a comprehensive and inclusive process based on analysis and wide stakeholder consultations that involved Government Ministries, Public Sector Implementing Agencies, Private Sector, Development Partners, Educational and Research Institutions as well as Civil Society.

Finally, it is with great pleasure that I present to you the Micro, Small and Medium Enterprises (MSMEs) Policy 2015. I wish to thank all the stakeholders who participated in the formulation process and request for your continued support for effective and efficient implementation of the Micro, Small and Medium Enterprises (MSMEs) Policy 2015

  
**Hon. Amelia Kyambadde (MP)**  
**MINISTER**

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<b>3. Promote MSME product and service standards for quality assurance production</b>	Developed New National harmonised Standards harmonised to regional and international standards.	<ul style="list-style-type: none"> <li>Number of new Standards developed and harmonised with regional and international Standards</li> </ul>
	Quality and accreditation infrastructure developed or improved	<ul style="list-style-type: none"> <li>Percentage funding allocated to the quality and accreditation infrastructure development</li> </ul>
	SMEs and local markets inspected to ensure compliance with standards and technical regulations	<ul style="list-style-type: none"> <li>Number of quality products certified</li> </ul>
	New low cost certification mechanism promoted	<ul style="list-style-type: none"> <li>Number of MSME getting standards</li> </ul>
	Quality test kits for MSMEs developed.	<ul style="list-style-type: none"> <li>Increased production and consumption of quality products</li> </ul>
	Improved awareness and knowledge on standards and quality production	<ul style="list-style-type: none"> <li>Increased compliance to standards</li> <li>Number of safe and healthy products on the markets</li> </ul>

<b>2. Promote research, product/process development, innovation, value addition and appropriate technologies including ICT</b>	Build and strengthened the capacity of MSMEs to absorb innovation and research	<ul style="list-style-type: none"> <li>• Number of local innovations developed</li> <li>• Number of employment opportunities created</li> <li>• % increase in income for local investors</li> </ul>
	Realisation of scalable and growth of cottage and high tech Enterprises	<ul style="list-style-type: none"> <li>• Number of skills improved and jobs created</li> <li>• Number of facilities established</li> <li>• Number of technologies and prototypes developed</li> </ul>
	Higher sustainable productivity  Accelerated transfer of technology	<ul style="list-style-type: none"> <li>• Number of value added products and services</li> <li>• Number of technologies transferred and up-graded</li> <li>• Number of FDI attracted and encouraged</li> </ul>
	Promote sustainable implementation of local content consumption in the economy	<ul style="list-style-type: none"> <li>• Number of value added products and service clusters</li> <li>• Number of value chain networks developed</li> </ul>

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## ACRONYMS AND ABBREVIATIONS

AMFIU	Association of Microfinance Institutions of Uganda
BDS	Business Development Services
BOU	Bank of Uganda
BTJET	Business, Technical and Vocational Education Training
CEEWA	Uganda Council for Economic Empowerment for Women of Africa –Uganda Chapter
CICS	Competitiveness and Investment Climate Strategy
CSO	Civil Society Organisation
DDA	Dairy Development Directorate
DFCU	Development Finance Company of Uganda
EADB	East African Development Bank
EPZ	Export Processing Zone
ERT-MAAIF	Energy for Rural Transformation Project – Ministry of Agriculture, Animal Industry and Fisheries
EUG	Enterprise Uganda
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GGA	Gender and Growth Assessment Report
GTZ	German Technical Cooperation
HwK	Chamber of Small Businesses and Skilled Crafts Cologne
ILO	International Labour Organization
IMSENCC	Informal, Micro and Small Enterprise National Coordination Committee
MAAIF	Ministry of Agriculture, Animal Industry & Fisheries
MCP	Master Craftsman Programme
MDG	Millennium Development Goals
MDI	Microfinance Deposit-taking Institution
MFI	Micro Finance Institutions
MPED	Ministry of Finance Planning and Economic Development
MGLSD	Ministry of Gender, Labour and Social Development
MOES	Ministry of Education and Sports

## Annex 1. Monitoring and Evaluation Matrix

POLICY ACTIONS	INDICATORS	MEASURES
<b>1. Provide enabling policy and legal environment and institutional coordination framework</b>	Improved socio-economic opportunities, impact and ease of doing business	<ul style="list-style-type: none"> <li>Number of formal business setups created annually</li> <li>Number of employments created annually</li> <li>Percentage of revenue generated and taxes contributed</li> </ul>
	Improved inter-institutional collaboration to enhance coordination of MSME activities	<ul style="list-style-type: none"> <li>Number of positions established and staff recruited</li> <li>Annual budgeted activities approved</li> <li>National technical committee established</li> </ul>
	Improved efficiency and good corporate governance	<ul style="list-style-type: none"> <li>Number of recognised MSME associations registered</li> <li>MSME Apex body established</li> <li>Number of informal associations/groups formalised</li> </ul>
	Exploit MSMEs IP assets as a business tool	<ul style="list-style-type: none"> <li>Number of IP assets identified and registered</li> <li>Number of entrepreneurs sensitised</li> </ul>
	Improved capacity building, networking and monitoring	<ul style="list-style-type: none"> <li>Number of policies and laws enacted</li> </ul>

a framework for communicating Ministry activities/trade sector development both to stakeholders within and without the organization. The communication strategy recognises the pivotal role of the private sector, government agencies, academia, civil society, International community and the Media, thus identifies them as primary Audience for the policy implementation. The Communication strategy identifies several channels of communication that shall define a feedback mechanism that is mutually beneficial to Government and other stakeholders. Respect of different opinions, tolerance, learning and unlearning are some of the values the Communication strategy expounds.

## 6 CONCLUSION

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This policy document, has attempted to exhaust issues confronting MSMEs in Uganda, notable among them being lack of a definite policy framework that culminated into disjointed, uncoordinated and duplicated roles of the sector players, thereby hindering the development of a strong, vibrant and competitive MSME sector in Uganda.

Government through the MTIC has harmonized all current policy issues, in consultation with stakeholders in the sector. This policy seeks to synergise these efforts, remove duplication and move towards a holistic forward looking policy framework shall inject a better dose of legitimacy into the private sector to enable them perform far better than their current economic contribution.

MTIC appreciates the invaluable contribution of all stakeholders towards the formulation of this policy outcome. The guidance from the Cabinet Secretariat under President's Office was enormous; likewise the contribution of the Ministry of Finance, Planning and Economic Development in laying the foundation stone for this policy, USSIA-HwK, UIA, URA, URSB, EPRC, UIRI, UWEAL, ILO to mention a few have all been enormous drivers in the policy formulation process.

MSMEs	Micro, Small & Medium Enterprises
MTTC	Ministry of Trade, Industry and Cooperatives
NAADS	National Agricultural Advisory Services
NARO	National Agricultural Research Organization
NGOs	Non-governmental Organisations
NPA	National Development Plan
PEAP	Poverty Eradication Action Plan
PMA	Plan for Modernization of Agriculture
PPDA	Public Procurement & Disposal of Public Assets
PPP	Public Private Partnership
PSFU	Private Sector Foundation of Uganda
PWDs	People Living with Disabilities
SACCO	Savings and Credit Cooperative
UBOS	Uganda Bureau of Statistics
UEPB	Uganda Export Promotion Board
UIA	Uganda Investment Authority
UIRI	Uganda Industrial Research Institute
ULAIA	Uganda Leather & Allied Industries Association
UMA	Uganda Manufacturers Association
UNBS	Uganda National Bureau of Standards
UNCCI	Uganda National Chamber of Commerce and Industry
UNCST	Uganda National Council for Science & Technology
UNIDO	United Nations Industrial Development Organisations
USSIA	Uganda Small Scale Industries Association
UWEAL	Uganda Women Entrepreneurs Association Limited



## **1 INTRODUCTION AND BACKGROUND**

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### **1.1 Introduction**

The 1995 Constitution of the Republic of Uganda sets out objectives and State Principles that guide all organs and agencies of the State, all citizens, organizations and other bodies. In particular the Constitution recognises in objectives viii; the right to development, objective ix; the role of people in development, and x; role of the State in development.

The Uganda's liberalisation and pro-market policies of the late 1980s led to sustained private sector growth with real GDP contribution averaged 7% per year, were geared at realising the Constitutional objectives mentioned above.

The Micro, Small, Medium, Enterprises (MSMEs) are the engine of growth for the economic development of Uganda and indeed the world at large. They are spread across all sectors with 49% in service sector, 33% in commerce and trade, 10% in manufacturing and 8% in others. The MSMEs are key drivers in fostering innovation, wealth creation and job creation in Uganda. Over 2.5 million people are employed in this sector, where they account for approximately 90% of the entire Private Sector, generating over 80% of manufactured output that contributes 20% of the gross domestic product (GDP).

In line with Vision 2040, the NDPI (2010/11-2014/15) and NDPII (2015/6-2019/20) both identify and emphasise the role of the private sector in engendering private led economic development. MSMEs are the major source of technological innovation and new products. They constitute an important sector in manufacturing, services and agriculture/agro-businesses engaged in local, regional and international businesses. Evidence from UBOS (2010) statistical abstracts pronounce the contribution of MSMEs as significant and having potential to change the economy of Uganda for the better.

However, there is inadequate policy framework to enable effective realisation of the full growth potential of MSMEs to economic development. Government, development partners and private sector have come up with a number of initiatives to promote and develop MSMEs sector, but the efforts have been largely scattered, uncoordinated, conflicting and isolated.

Despite the sector's enormous size and contribution to the economy, the 2015 World Bank Doing Business Survey 'identifies impediments for sufficient MSME growth and competitiveness as the longer time taken to register property and trading across borders. Other challenges include of protecting invest-

Agencies, such International Labour Organization (ILO) and United Nations Industrial Development Organisation (UNIDO). Uganda also has a good trade partnership with European Union and United States under African Growth Opportunity Act (AGOA). Government recognises the importance of all these regional and international institutions and shall therefore cooperate and abide by their decisions, resolutions and recommendations, especially in the implementation process of the MSME policy.

### **5.3 Policy Options**

Given that MSMEs cut across several sectors, both private and public interests are bound to influence policy processes in the MSME sector and aware that policy according to leading academics like Thomas A. Birkland *An Introduction to Policy Process* (2001), policy is what the government intends to do, it also what government chooses not to do. Alternative policy option here would mean assigning responsibility to another ministry or agency thereby perpetuating "the status quo". However based on evidence gathered after wide consultation and SWOT analysis, the Ministry of Trade, Industry and Cooperatives was a suitable government Institution to define the policy issue and generate a policy framework.

### **5.4 Financing the Policy**

The policy will be financed in accordance with the elaborate cost matrix attached in Annex 1. The underlying financial strategy principle is propulsion of a robust and sustainable private sector capable of leading in economic growth of Uganda. While bulk of funding shall originate from government, interventions from other stakeholders especially in the aspect of human resource development for implementation of policy objectives shall be a welcome gesture.

### **5.5 Monitoring and Evaluation**

The Ministry of Trade, Industry and Cooperatives, being the focal institution responsible for the coordination of the policy implementation, shall collect, compile and analyse information in all matters related to MSME policy implementation. The monitoring and evaluation mechanism shall be a major policy instrument with detailed activities and specific timeframe as indicated in Annex 2. The overall policy objectives and strategies shall be Specific, Measurable, Attainable, Realistic and Timely (SMART), a period of five years shall be a review timeline for this policy.

### **5.6 Communication Strategy**

MTIC has a comprehensive and robust communication strategy which lays out

### 5.2.3 Agencies

The MSME sector makes a contribution to our economy and interfaces with various agencies of government that streamline and facilitate their legitimacy and operations. All agencies shall be involved in the policy implementation, notable among them are; Uganda Investment Authority, Uganda National Bureau of Standards, Uganda Revenue Authority, Uganda Bureau of Statistics, Uganda Registration Services Bureau, Uganda National Chamber of Commerce, National Environment Authority, National Forest Authority, Uganda Wildlife Authority, Equal Opportunities Commission, Uganda Aids Commission and National Youth Council to mention.

### 5.2.4 Private Sector, Cooperatives, Civil Society and Academia

Government recognises the importance of the private sector in championing the growth and development of MSMEs in Uganda. The institutions mentioned here under have a critical contribution to make towards successful implementation of the policy; Private Sector Foundation, Enterprise Uganda, Uganda Manufacturers Association (UMA), Uganda Small Scale Industries Association (USSIA), Uganda, Uganda Women Entrepreneurs Association Limited (UWEAL) and Uganda Farmers' Federation, various MSME Associations and organisations. Equally the role played by academia, civil society, cooperatives, the media in their daily interface between government institutions and MSMEs cannot be under estimated. In order to harness and encourage the participation of all stakeholders mentioned, government shall provide necessary support, appropriate incentives, guidelines and collaborative initiatives to private sector, civil society, academia to contribute towards realisation of a competitive and well developed MSME sector .

Government shall endeavour to build capacity of the private sector and encourage the informal MSMEs to formalize their operations in order to enjoy legitimacy through government protection.

### 5.2.5 Regional and International Cooperation

Uganda is a member of the following Regional Organizations; East African Community (EAC), the Common Market for East and South Africa (COMESA), Inter-Governmental Authority on Development (IGAD) and the New Partnership for Africa's Development (NEPAD). She is also a member of African Union, Commonwealth, the Organization of Islamic Conference and the Non-Aligned Movement. Uganda is also a member of the United Nations and its

tors, starting a business, enforcing contracts, and getting credit. The major contributing factor to these impediments is the large informality of the sector, with many enterprises only lasting as five years or less.

### 1.2 Definition of MSMEs

The definition of micro, small and medium enterprises includes all types of enterprises irrespective of their legal form (such as family enterprises, sole proprietorships or cooperatives) or whether they are formal or informal enterprises to ensure inclusiveness.

Uganda Bureau of Statistics has adopted categorisation of enterprises basing the fulfilment of the minimum requirements of any two of the criteria of; number of employees, capital investment and annual sales turnover. In quantitative terms, micro enterprises are those businesses employing not more than 5 and have a total assets not exceeding UGX: 10million. On the other hand small enterprises employ between 5 and 49 and have total assets between UGX: 10 million but not exceeding 100 million. The medium enterprise therefore, employs between 50 and 100 with total assets more than 100 million but not exceeding 360 million<sup>2</sup>.

### 1.3 Priority Sectors for MSMEs Growth

Government, in the National Development Plan (NDP) II (2015/2020) identified MSMEs as fundamental contributors to the creation of opportunities in the available sectors in order to cultivate and nurture entrepreneurial and managerial skills across the country. This would reduce the rural-urban drift to the extent that some people remain in the rural areas where these resources are located. These sectors include:

- Manufacturing sector has a gross growth potential of more than 10% per annum. These can be classified as: Agro processing and value addition that the United Nations International Standards Industrial classification of agro-processing production classifies into five sub-sectors:- i) Manufacture of food, beverage and tobacco; ii) Textile wearing apparel and leather; iii) Wood products including furniture; iv) Paper and paper products, printing and publishing; and v) Rubber products.
- Non-food manufacturing included sectors such as metal fabrication and light engineering, metal casting and foundry, electrical and elec-

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2 UBOS 2010/11 statistics

tronic hardware engineering, ceramics, pottery and construction industry.

- The energy, oil and gas sectors too are potential areas of growth.
- The service sector mainly; information and communication technology with vibrant opportunities in broadband services, business process outsourcing, tourism and transport, trade and marketing, business incubation and training.
- The education, hospitality and health support services are among the growing potential sectors for the MSMEs.

## **5 POLICY IMPLEMENTATION, MONITORING AND EVALUATION**

### **5.1 Legal Framework**

The Constitution of the Republic of Uganda shall be the foundation under which this policy derives its mandate and legitimacy. The policy further takes cognizance of other pieces of legislation which shall form a basis for strengthening its implementation. The National Planning framework under NDPI and NDPII as well as the over-arching objectives of Vision 2040 shall all inform implementation of this policy. Uganda being a member of various regional and international organizations, the policy shall therefore not operate in discordance with decisions, resolutions, agreements and recommendations made.

### **5.2 Institutional Framework**

In pursuit of the guiding principles of this policy, all stakeholders shall maintain a good working relationship with an aim of perfecting the performance and contribution of the MSME sector the socio-economic development of Uganda and beyond. The institutional arrangement below shall guide implementation of this policy.

#### **5.2.1 Coordinating Ministry for MSMEs**

Since MSMEs cut across several sectors, the implementation of this policy shall require a multi-sectoral approach, involving other government ministries, departments and agencies. The Ministry of Trade, Industry and Cooperatives shall be in charge of policy implementation, and overseeing the monitoring and evaluation. The Directorate of MSME sector shall manage and uphold the strategic planning mechanisms in the sector.

#### **5.2.2 Other Ministries**

While all interventions shall be coordinated by the Ministry of Trade, Industry and Cooperatives, all other Ministries shall play a key role in policy implementation and evaluation including; Office of the President; Office of the Prime Minister; Ministry of Finance Planning and Economic; Justice and Constitutional Affairs; Education, Science, Technology and Sports; Local Government; Information and Communication Technology; Energy and Mineral Development; Works and Transport; Foreign Affairs; Gender, Labour and Social Development; East African Community Affairs; Water and Environment; Health; Agriculture Animal Industry and Fisheries and Tourism, Wildlife and Antiquities.

**Objective 6: To enhance capacity building for entrepreneurship, vocational, business and Industrial development skills**

- i. Strengthen and expand entrepreneurship and small business management programs and their outreach, especially to the women, youth and People with disabilities (PWDs)
- ii. Strengthen and encourage integration of entrepreneurship development in vocational and technical institutions
- iii. Promote synergies between MSMEs and networks of business, vocational and technical institutions
- iv. Provide opportunities to informal MSME sector to supplement their expertise through skills- upgrading and certification

**Objective 7: To enhance gender equity, inclusiveness and environmentally friendly businesses for sustainable development**

- i. Promote gender equity and inclusiveness in business development.
- ii. Promote use of gender disaggregated data collection tool (business census)
- iii. Promote environmentally friendly businesses for sustainable development
- iv. Support environmental degradation and climate change mitigation
- v. Support investment and adaptation of technologies that respond to economic change for Women Entrepreneurs (WE's), Youth and PWDs
- vi. Institute a reward system and permanent exhibition centre targeting Women Entrepreneurs and PWD Innovators
- vii. Support funding for implementation of Gender Policy affirmative programs in addressing geographical, historical and structural disadvantages in entrepreneurship
- viii. Continue to implement programmes that check the spread of HIV/AIDS among MSMEs that affect the productive labour
- ix. Promote ethics and integrity in doing business
- x. Promote the implementation of 3Rs (recover, recycle and use) in the activities of MSMEs where applicable

**2 SITUATION ANALYSIS OF THE MSMEs SECTOR**

An analysis of the socio-economic conditions within the entire economy and the conduct of MSMEs in the delivery of their services were carried out using the strengths, weaknesses, opportunities and threats (SWOT) model. The following was revealed:

**2.1 STRENGTHS**

**2.1.1 Stable Macroeconomic Environment**

Uganda has enjoyed a strong and stable macroeconomic environment over the last two decades characterized by low inflation rate standing at 4-5%, stable foreign exchange rate, reserves averaging five months of import cover and an average GDP growth rate maintained at 6-8% per annum. This outlook provides a strong foundation for MSMEs to flourish.

**2.1.2 Support Institutions**

Government has established support institutions, particularly the Directorate of MSMEs under the Ministry of Trade, Industry and Cooperatives (MTIC) with its affiliated institutions, Departments and Agencies for example; Investment and Private Sector Development in the Ministry of Finance, Planning and Economic Development (MFPED); Uganda Investment Authority (UIA); Research Institutions and Makerere University Entrepreneurship Centre among others. Other private institutions include Private Sector Foundation Uganda (PSFU) and Enterprise Uganda (EUG); these continue to design and implement the necessary policies and programmes that support the development of the MSME sector. Significant success has been achieved in skills development, entrepreneurship promotion, and research and business incubation for MSMEs.

**2.1.3 Supportive Legal Framework**

While there are a number of instruments that support MSMEs, they are fragmented, or not integrated and not harmonized, making it difficult to comprehensively assess how they are befitting MSMEs.

Because of the multi-sectoral nature of MSMEs a number of policies and laws supporting the various sub sectors will consequently complement this policy. These include among others; The National Constitution, the Micro Finance Act, UNBS Act, PPDA Act, the Tax Act, the National Land Policy, the National Immigration Policy, the National Trade Policy, the National Industrialization Policy, the National Tourism Policy, the National PPP Policy, the Micro Finance Policy, the Investment Code, Buy Ugandan Build Uganda Policy and



Employment Policy among others. These policies and laws will complement the MSME policy to address the existing gaps in the sector.

The concept of Public-Private Partnership (PPPs) initiatives focuses on Policy dialogue, advocacy, joint project design and implementation. This presents a window for MSMEs to partner with Government to strengthen their investments. Indeed the NDPI (2010/11-2014/15) and NDPII, (2015/16-2019/20), both outline priority projects such as Warehouse Receipt System (WRS), Cross Border Markets development to provide opportunities for small-scale producers, farmers and traders to improve the marketing of their products regionally.

#### **2.1.4 Enterprising and Trainable Labour Force**

There are over 35 Public and Private Universities and several Business, Technical, Vocational Education and Training (BTVET) in Uganda offering quality education. This offers a steady supply of trained and flexible labour force as well as potential entrepreneurs that MSMEs can tap. In Uganda, approximately 60% of the MSMEs are either sole proprietorships or partnership with businesses aged between 1 and 5 years. This signifies that one in every three Ugandans is engaged in some kind of entrepreneurial activity. This high potential is key to the success of the MSME Policy.

#### **2.1.5 Natural Resource Endowments**

Uganda is gifted by nature with expanses of arable land and fertile soils that support agro-based enterprises; a number of fresh water bodies including the World's second largest lake that is home to various fish species; a variety of minerals according to aeromagnetic survey show 17 metallic minerals and 13 industrial minerals awaiting exploitation. The energy, oil and gas and a neat blend of biodiversity and scenic resources that support a wide range of tourism activities provide a plethora of investment opportunities for MSMEs to exploit.

#### **2.1.6 Conducive Investment Climate**

The economy is fully liberalized and open to foreign direct investment (FDI), with no restrictions on remittance of dividends and with fully functional legal systems. This is clearly demonstrated in the ICT sector by the improved communication system with over 9.9 million mobile subscribers, and the increased number of private radio stations from 222 to 253 according to the Uganda Communications Commission (UCC). This augurs well for dissemination and access to information required by MSMEs for their operations.

### **Objective 4: To support access to markets and business information services**

- i. Promote development of sustainable sourcing Partnership and business linkages between MSMEs and larger firms
- ii. Facilitate development of new/niche markets through MSMEs participation in local and international exhibitions and trade fairs.
- iii. Provide training on marketing, trading systems and market intelligence feasibility studies for most traded goods for export market.
- iv. Develop franchise marketing strategy for MSMEs as an excellent opportunity to connect with other franchisees at international market access.
- v. Establish a national Business and Information Technology registry data bank with a website and directory for MSMEs
- vi. Promote Clustering initiatives, networking and business linkage approach amongst MSMEs and bigger firms to maximise intra-industry synergies and economies of scale
- vii. Establish an integrated mechanism for dissemination of technical, marketing, business development and promotion information to agri-business sub sector.
- viii. Strengthen the implementation of 'Production Zoning' Concept

### **Objective 5: To increase access to credit and financial services**

- i. Promote and strengthen linkages between MSMEs and financial institutions for extending flexible credit facilities such as hire purchase, asset/inventory financing, leasing and strengthen SACCO's credit schemes
- ii. Establish a special MSME fund to cater for innovations, start-ups and growth
- iii. Promote financial literacy training to entrepreneurs and encourage responsive borrowing and lending

**Objective 2: To promote research, product/process development, innovation, value addition and appropriate technologies including ICT**

- i. Facilitate research, product development and innovations
- ii. Provide infrastructural support to the development of MSMEs (land, water, roads, electricity)
- iii. Promote establishment of industrial and business parks, Science and Technology incubation centres and common training facilities at national and regional level.
- iv. Promote the transfer of sustainable, consumption and production technologies to all areas including upgrading existing technologies for manufacture of value added products.
- v. Support the cluster value chain development initiatives and networking between MSMEs, research and development institutions and academia.
- vi. Promote the diffusion of Information and Communication Technology - ICT to the private sector
- vii. Facilitate the operationalization of Industrial and Innovation fund to spur industrialisation process
- viii. Strengthen initiatives for Technology Development including Appropriate Technologies, Technology Up-gradation & Technology Transfer

**Objective 3: To Promote product and service standards for quality**

**assurance**

- i. Enhance linkages between UNBS and other Stakeholders for developing, establishing and expanding adoption and application of Standards & Certification
- ii. Strengthen the mechanism for monitoring and enforcement of Standards & Product Certification.
- iii. Promote investments in standards and quality infrastructure for widening the scope and reach to MSMEs.
- iv. Promote and encourage certification of MSMEs' products and services at affordable rates
- v. Enhance the implementation of the communication strategy to build capacity and raise awareness on design, quality and conformity to standards.

**2.2 WEAKNESS/CHALLENGES FACED BY THE MSMEs**

**2.2.1 Limited Access to Affordable Finance**

The major constraint for MSMEs and often cited, is limited access to affordable finance needed to meet their diverse needs, access to wider capital due to nature of their establishment, access and high cost of obtaining credit risk collateral. This normally affects enterprises established by mainly women, youth and people with disabilities (PWDs) as well as agriculture based enterprises whose businesses are perceived to be risky. However, whereas these financial products exist, interest rates charged are still very high and most MSMEs cannot afford.

**2.2.2 The Dominant Informality of the Sector**

The majority of enterprises within the micro, small and medium sector operate informally. This high incidence of the informal economy in all its aspects is a major challenge for the achievement of growth and expansion of the enterprises, enterprise productivity, and working conditions and has a negative impact on the development of sustainable enterprises, public revenues and government's scope of action, particularly with regard to economic, social and environmental policies, the soundness of institutions and fair competition in national and international markets.

**2.2.3 Inadequate technical and business skills**

Whereas the country has been blessed by the increasing number of academic and training institutions, there is still a gap in the entrepreneurship, technical and management skills. Developing these skills will engender enterprising persons who should be equipped to fulfil their potential and create their own businesses.

**2.2.4 Limited Access to Appropriate Technology**

Enhanced value added production and service technology needed by MSMEs are extremely diverse, reflecting the wide range of products and services. In order for the MSMEs to ensure the competitiveness of the manufacturing and production activities of their business, the need to access, adopt and/or adapt appropriate technologies is vital. Ugandan MSMEs must have access to appropriate technologies to facilitate and improve productivity and efficiency.

**2.2.5 Limited Access to Quality Assurance & Affordable Product Certification Services**

MSMEs face the challenge of costly process for their product Certification and



Standardisation. This puts MSMEs in a disadvantageous position within local, regional and export market access of their products and services. In reality, many of them cannot comply with the present minimum requirements due to limited capital.

#### **2.2.6 Limited Infrastructural facilities**

Limited infrastructural facilities such as; modern village markets, industrial parks, business premises, clusters, and access to land for operation, common testing facility centres and business incubators hinder the innovativeness and creativity of the MSMEs. The existing infrastructural facilities related to transportation (roads, railways), power generation, transmission and distribution, water supply, telecommunication are not adequate but also expensive rendering the cost of doing business high.

#### **2.2.7 Limited Access to Markets and Business Information Services**

MSMEs are faced with a number of challenges in accessing markets for their goods and services that are directly related to the actual disposal of the product or service on the local or export market. The limited access to market information such as strict international standards, fluctuating foreign exchange rates, free trade areas, stiff competition of similar products makes MSMEs less aware of opportunities in the market. On the hand, limited business development services in providing entrepreneurs with business development skills and industrial knowledge to raise MSMEs' productivity are still fragmented and not demand driven.

#### **2.2.8 Uncoordinated Structure of MSME Sector**

Presently, the MSME sector is highly fragmented which undermines competitiveness, growth and sustainability of the sector. As a result, the MSMEs do not have a single common voice and forum for effective policy dialogue to and influencing policy in lobbying government support. This can be attributed to weak internal capacities of associations representing MSMEs and the liberal policies that lack industry to industry supplier linkages and development. A strong and coordinated apex body to strengthen and enable MSMEs to cope successfully within globalisation for increased flows of Foreign Direct Investments (FDI) is needed including facilitation of linkages between larger enterprises and MSMEs.

## **4 POLICY INTERVENTIONS TO ACHIEVE THE OBJECTIVES**

The Government of Uganda undertakes to achieve the policy objectives by implementing the following interventions:

### **Objective 1: To provide enabling environment through policy, legal and institutional coordination framework**

#### **1. Policy, legal and Regulatory Framework:**

- i. Strengthen the URSB as a 'Single Window' for all requirements, including payments of fees, for business registration and other compliance requirements
- ii. Publication and dissemination of all effective business licenses/regulations
- iii. Implement a simplified standardised business registration process including simplified and consolidated application forms; and implementation of unified business registration procedures for all government levels
- iv. Encourage formalisation of MSMEs
- v. Identify, protect, evaluate and exploit Intellectual Property assets as business tool and sensitize MSMEs on Intellectual Property Rights.
- vi. Conduct policy research and review

#### **2. Institutional Framework for MSME Development**

- i. Strengthen National Micro, Small & Medium Enterprises Directorate, under the MTIC
- ii. Ensure coordination and harmonisation of national MSMEs development policies and programs
- iii. Develop guidelines on priority establishment of MSMEs apex body composed of active and registered member associations accredited by Ministry of Trade, Industry and Cooperatives.
- iv. Support establishment and strengthening of MSMEs associations with allotment of a 'Unique Business Identity' to individual entrepreneurs associations.

### **3.5 Guiding Principles**

Implementation of this policy will be guided by the following principles;

- i. Promoting policy coherence at national, regional and international level
- ii. Promoting research, innovation and standards.
- iii. Promoting Public-Private Partnership (PPP) initiatives.
- iv. Promoting MSMEs clustering,
- v. Promoting intra and inter regional trade
- vi. Strengthening Environmentally friendly and cleaner consumption and production technologies

### **2.2.9 Gender Inclusiveness in MSMEs Development**

Women in Uganda make up more than 50% of the labour force and are an important pool of potential talent to help the country meet its development goals, especially in the area of entrepreneurship and micro, small and medium enterprises. However, it is generally known that women face more challenges than men in starting, managing and growing their enterprises as they are more likely to be impeded by a lack of the necessary capacities, skills and resources. Although Uganda has made some important advancements in women's entrepreneurship development since the early 2000s, the challenges facing women entrepreneurs have not changed much. Some studies reveal that over the last 10 years, the growth in the number of women-owned businesses has outpaced that of male-owned businesses by 1.5 times, majority of which are in self employment. Women have also been more disadvantaged than men due to legal impediments, established cultural norms and attitudes about women's roles. Their limited mobility due to domestic responsibilities does not give many women time to concentrate on their enterprises.

## **2.3 OPPORTUNITIES**

### **2.3.1 Access to Regional and International Markets**

Ugandan investors have access to the East African Community market which has a population of approximately 130 million people. Uganda is also a member of the Common Market for Eastern and Southern Africa (COMESA) consisting of 23 member states with a population of over 400 million people. The current tripartite negotiations EAC-COMESA- SADC bringing the total population of 520 Million puts Uganda at strategic geographical advantage to present opportunity to establish international trade links. Ugandan products also enjoy preferential access to the European Union, the United States and other trading blocs. The quality requirements notwithstanding, these markets are an opportunity for MSME growth and development.

## **2.4 THREATS**

### **2.4.1 HIV/AIDS**

The recent survey of the National HIV/AIDs indicator show the prevalence rates of Ugandans aged 15-49 has risen to 7.3%. These affects directly on the labour force and efficiency in the MSMEs sector and increase the dependency ratio occasioned by high orphan-hood and increased absenteeism from work as

a result of the epidemic. The need to support work place related guidelines to address HIV/AIDs is much supported

#### **2.4.2 Environmental Issues and Climate Change**

The increased rate of global warming, the compounded limited awareness of environmental issues such as environmental laws and regulation, non-compliance and the resultant unpredictability of seasons is one of the greatest menaces to productivity of MSMEs in Uganda today.

### **3 THE VISION, MISSION AND OBJECTIVES**

#### **3.1 Vision**

The vision of the MSMEs Policy is to create “**A critical mass of viable, dynamic and competitive MSMEs, significantly contributing to the socio-economic development**”.

#### **3.2 Mission**

To stimulate growth of sustainable MSMEs through enhanced business support service provision, access to finance, technical and business skills, and the creation of a conducive policy, legal and institutional framework.

#### **3.3 Policy Justification**

Guided by the SWOT analysis and aware that government initiative to promote and develop MSMEs sector has largely been complicated by scattered, uncoordinated and conflicting interests as well as actions of different stakeholders This policy therefore provides a framework that aligns all the previous efforts by different players, so as to meet the aspirations and objectives of Government’s development agenda.

#### **3.4 Policy Objectives**

The specific policy objectives of in this regard are the following;

- i. To provide enabling environment through policy, legal and institutional coordination framework
- ii. To promote research, product/process development, innovation, value addition and appropriate technologies including ICT
- iii. To promote product and service standards for quality assurance
- iv. To support access to markets and business information services
- v. To increase access to credit and financial services
- vi. To enhance capacity building entrepreneurship, vocational, business and Industrial development skills
- vii. To enhance gender equity, inclusiveness and environmentally friendly businesses for sustainable development