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Catalyzing MSME Success: **Policy Interventions Guided by Uganda's National Entrepreneurship Index**



INTRODUCTION:

Uganda's Micro, Small, and Medium Enterprises (MSMEs) exhibit a robust entrepreneurial spirit but encounter substantial operational challenges. The 2024 National Entrepreneurship Index (NEI) score of 57% highlights critical shortcomings in business formalization, technology integration, and access to financing. This brief presents the key findings of the State of Entrepreneurship in Uganda 2024 study report and outlines priority actions to bridge these gaps and accelerate MSMEs growth.

BACKGROUND:

Uganda's MSMEs form the backbone of the entrepreneurial ecosystem and are pivotal to economic growth, innovation, and social development. MSMEs make up approximately 90% of private sector production, employ over 2.5 million people and generate 80% of manufactured output—accounting for 20% of GDP (MTIC 2021). Recognizing the pivotal role that these enterprises play, it is vital to understand the drivers of MSMEs and entrepreneurial growth, as well as the obstacles they face. This knowledge is essential to develop robust mechanisms to support MSMEs growth and success.

The inaugural State of Entrepreneurship Report provides a comprehensive baseline assessment of MSMEs in Uganda in 2024, offering valuable insights into the current state of entrepreneurship. It is aligned with the National Entrepreneurship Index (NEI), a newly developed tool used to assess the entrepreneurial ecosystem based on eight key dimensions: Human Capital, Linkages, Technology, Internal Processes and Systems, Attitudes, Willingness to Grow, and Financial Sustainability and Formal Registration.

Alongside the eight dimensions, the analysis covered additional research questions to provide a holistic view of the opportunities and challenges faced by Ugandan MSMEs, to inform targeted support and policy interventions.

KEY INSIGHTS FROM THE NATIONAL ENTREPRENEURSHIP INDEX

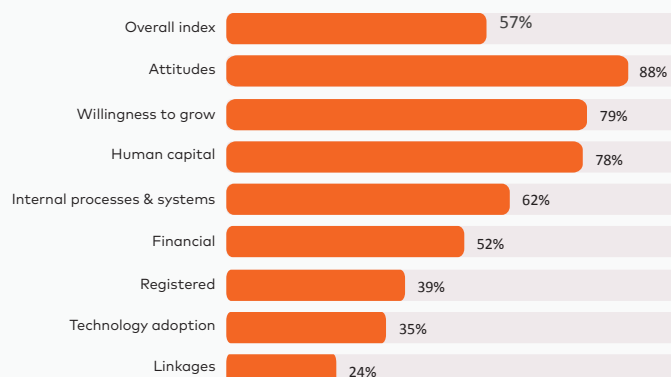
NATIONAL ENTREPRENEURSHIP INDEX SCORE

The NEI for Uganda in 2024 stands at 57%, reflecting a moderately healthy entrepreneurial ecosystem.

Strengths include entrepreneurs' positive attitudes (88%), strong willingness to grow (79%), and perceptions of adequate human capital (78%).

Weaknesses in operational aspects undermined the index: business linkages scored 24%; adoption of business technologies was low at 35%, and business registration was 39%.

Overall Index, n=3062



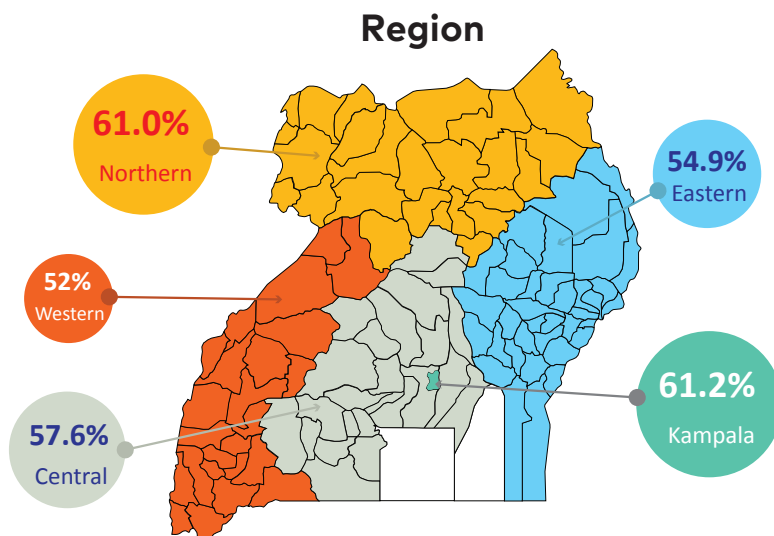
The key contributors to the overall index were Attitudes and Willingness to grow and Human capital



Entrepreneurship Index co-creation activity with key stakeholder to define the perimeter and definition of the index

REGIONAL PERFORMANCE

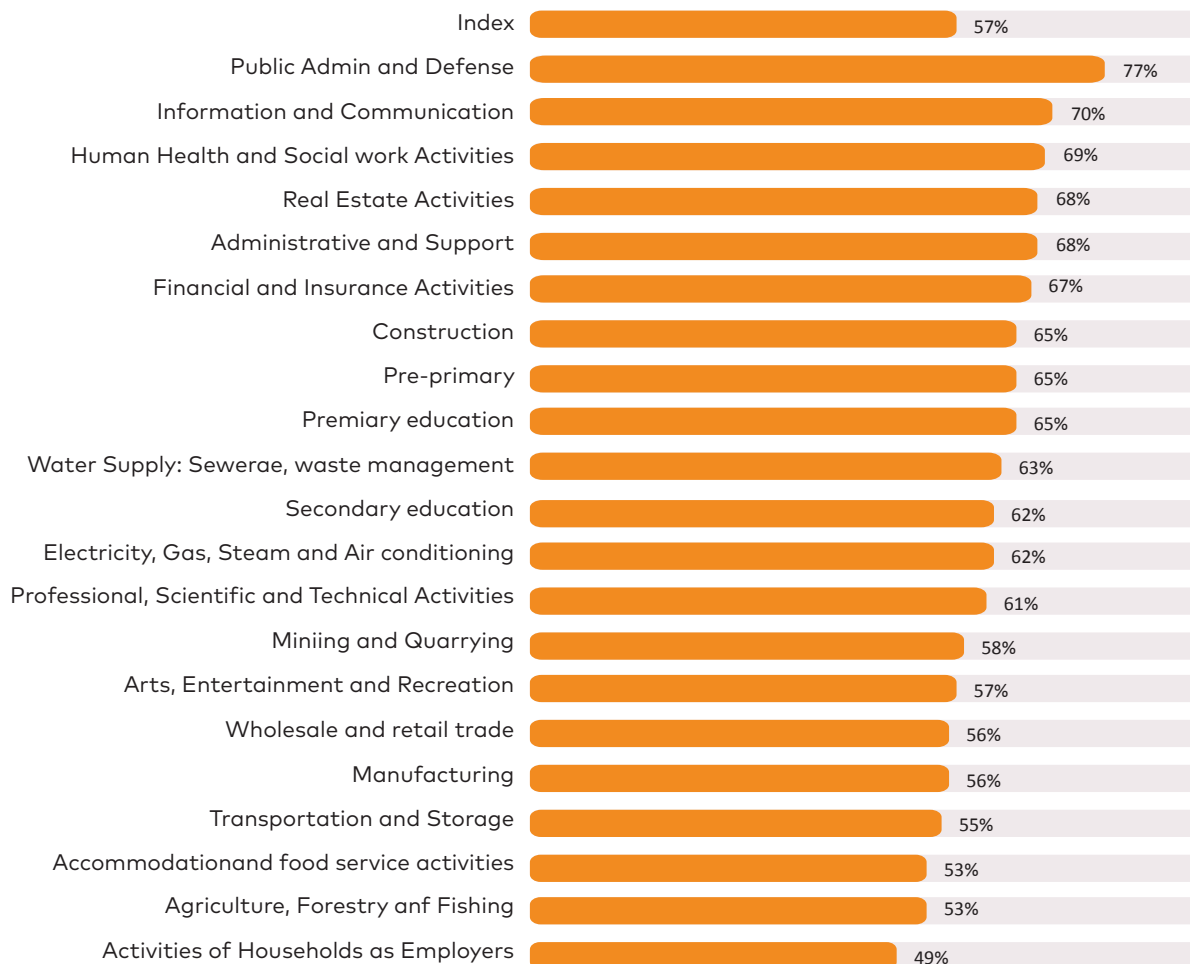
Kampala (61.2%) and the Northern region (61.0%) lead in entrepreneurial scores, followed by Central (57.6%), with Eastern (54.9%) and Western (52.0%) lagging, suggesting the need for programming to target resource accessibility and infrastructure in less developed areas.



SECTOR PERFORMANCE

Public Administration and Defense (77%) led NEI scores, followed by Information and Communication (70%), and Human Health and Social Work (69%), with sectors like Real Estate and Construction scoring between 65%-68%, whilst the lowest scored 49%.

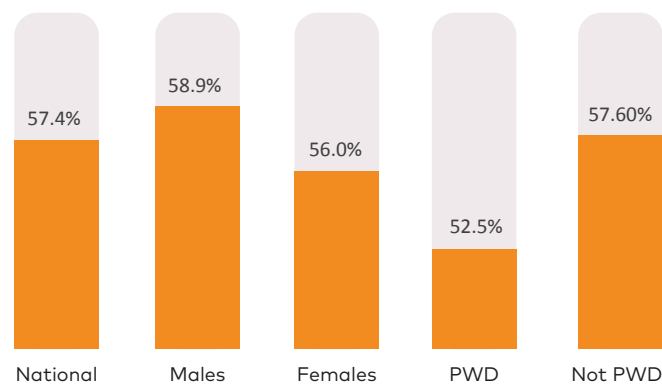
Figure 5: The entrepreneurship index by sector.



NATIONAL ENTREPRENEURSHIP INDEX BY GENDER

The NEI was slightly higher for males (58.9%) compared with females (56.0%). This gender gap, although modest, highlights the need for targeted interventions and support systems to empower female entrepreneurs and ensure equal opportunities.

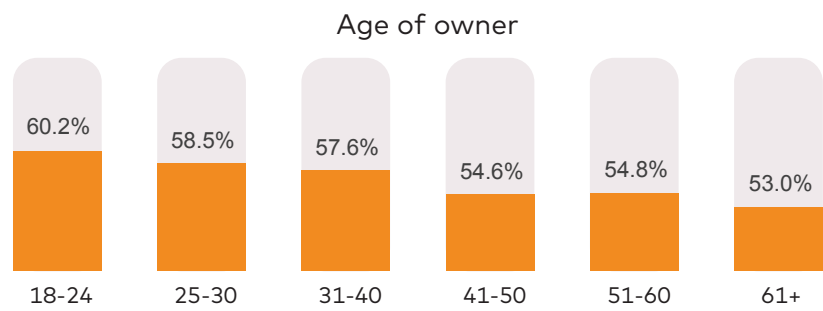
Figure 7: Entrepreneurship index by gender and PWD.



NATIONAL ENTREPRENEURSHIP INDEX BY AGE OF BUSINESS OWNERS

Younger entrepreneurs scored higher with the 18 to 24 age group leading (60.2%), followed by the 25 to 30 group (58.5%). The scores gradually declined as the ages increased: the 31 to 40 age group scored 57.6%; the 41 to 50 group scored 54.6%; the 51 to 60 group scored 54.8%, and the 61+ age group scored 53.0%.

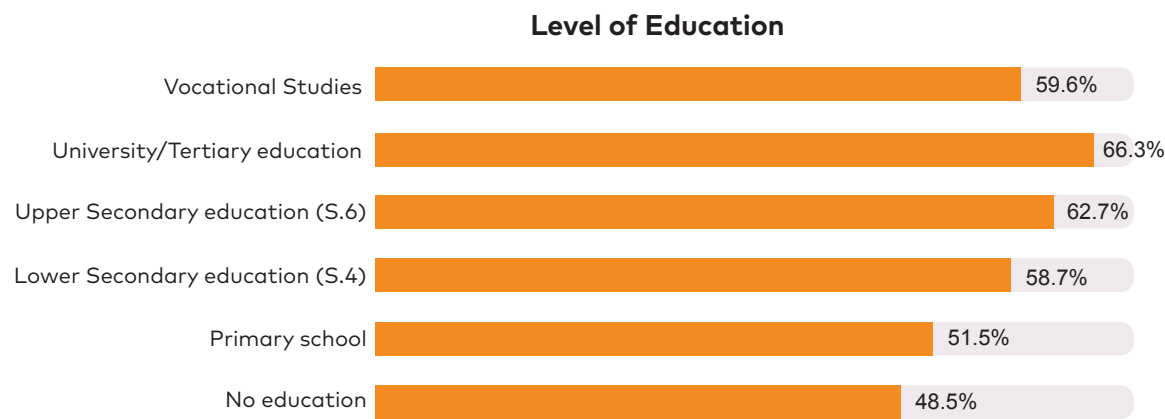
Figure 8: Entrepreneurship Index by age of the business owner, n= 3063



NATIONAL ENTREPRENEURSHIP INDEX BY EDUCATION LEVEL

Entrepreneurs with no formal education scored lowest 48.5%, followed by primary education (51.5%). The scores increased significantly for those with lower secondary education (S.4) at 58.7% and upper secondary education (S.6) at 62.7%. University or tertiary education holders led with 66.3%, whilst those with vocational training scored 59.6%.

Figure 9: Entrepreneurship Index by the education level of the business owner, n= 3063



PERFORMANCE BY DIMENSIONS

Dimension	Key Findings
Linkages	<p>Overall score: 24%</p> <p>The low score for business linkages indicates that Ugandan entrepreneurs may have limited connections and networks within the business community. The strongest contributor to the linkages dimension of the NEI was growth in the customer base factor, with over 60% of businesses experiencing an increase in the current year in comparison to the past one year. Linkages were likely to be constrained by limited online sales, moderate B2B (Business to Business) connections, and very low import activity.</p>
Technology	<p>Overall score: 35%</p> <p>The primary factor contributing to the Technology Entrepreneurship Index across MSMEs was access to technology, particularly smartphones and computers. Less than half of MSMEs (35.5%) had access to a smartphone while 53.4% lacked access to either gadget. Only 9.8% of the businesses had access to both gadgets.</p>
Internal Processes and Systems	<p>Overall score: 62%</p> <p>While 90.6% of enterprises believe in the importance of having manuals and processes, 64.8% lack them. The percentage of businesses with processes and manuals decreases with age with the 18 to 24 age group posting the highest score (38.5%) and the 61+ age group with the lowest (30.8%). 63.1% of enterprises maintain records and 93.3% acknowledge the importance of keeping financial records.</p> <p>Male-owned businesses exhibit a higher adoption rate of formal business processes and financial record-keeping compared to female-owned businesses.</p>
Attitudes	<p>Overall score: 88%</p> <p>The study revealed high perceptions of self-confidence with 82.3% of respondents reporting that they believe they are confident. Nearly 80% of respondents said they are very confident that their enterprises possess appropriate business management skills. 3 out of 4 respondents noted that investing in business is a common practice in their families.</p>
Willingness to Grow	<p>Overall score: 79%.</p> <p>Nearly all respondents expressed interest in expanding their enterprises with 92.8% being "Very interested" in growing their business; 54% "Optimistic that the business environment will get better"; and 79.5% "Confident that they have the capacity to serve more customers than the ones they have".</p>
Financial Sustainability	<p>Overall score: 52%</p> <p>77.4% of entrepreneurs reported making a profit in 2023, indicating a fairly high level of profitability. Across all age groups, the highest percentage of capital investment was in the "1,000,001 - 5,000,000 UGX" category. Younger entrepreneurs had lower capital investments compared to their older counterparts.</p> <p>Cashflow stability varied with 28-37% of businesses reporting increasing cashflow, 16-23% reporting stable cashflow, 37-44% reporting unstable cashflow, and 6-9% reporting declining cashflow.</p>
Formal Registration	<p>Overall score: 39%</p> <p>61% of business were not registered. Northern Uganda had the highest registration rates at 47.6% followed by Kampala at 45.1%. The highest non-registration rates were found in the Eastern (70.2%), followed by Western (63.4%) regions. Younger entrepreneurs cited a lack of knowledge and understanding of the registration process as a significant barrier. The process is seen as lengthy and complex, discouraging many.</p>
Human Capital	<p>Overall score: 78%</p> <p>About half (52%) of the entrepreneurs operate as sole proprietors or self-employed individuals without staff. Micro-enterprises with 0 to 2 employees dominated the MSME landscape with only 2.0% reporting employing 10+ people. Employee retention in youth owned business was 63.8% indicating moderately high levels of retention.</p>

POLICY RECOMMENDATIONS

1. Enhance Business Formalization

Streamline business registration processes to increase efficiency and accessibility. Several strategies can be deployed to this effect:

- **Enhance transparency in the registration process** by raising awareness of procedures, fees and timelines, to reduce opportunities for corruption. Additionally, leverage technology for online tracking of registration applications.
- **Increase access in rural areas by further decentralizing registration services.** Decentralization can further be facilitated through mobile stations up to sub-county level.
- **Address gender-related challenges** by tailoring support to meet the challenges faced by women-led MSMEs.
- **Strengthen coordination between the center and decentralized offices** to facilitate data sharing and communication in order to eliminate delays.

2. Bridge the Digital Divide and Promote Technology Adoption

Invest in digital infrastructure in underserved areas. Additionally, expand access to digital tools and enhance digital skills, including for excluded groups such as women, rural entrepreneurs, and persons living with disabilities (PWDs) who face greater barriers in accessing and adopting technology.

3. Foster Inclusive Entrepreneurship Development

To promote inclusive entrepreneurship, targeted interventions are needed to address the specific challenges faced by underserved groups, such as women and entrepreneurs with disabilities. These interventions should address barriers to accessing resources, markets, and networks.

Additionally, implement sector-specific policies for high-potential sectors such as ICT (Information and Communication Technology), Health, and Education.

4. Bolster Human Capital and Skills Development

Design and implement comprehensive entrepreneurship training and mentorship programs that cater to the specific needs of different MSME segments. These programs need to cover both technical and soft skills, emphasizing practical application and peer learning.

5. Strengthen Financial Capacity of MSMEs

Develop tailored financial products that address the unique requirements of MSMEs, ensuring flexibility and access. Simultaneously, champion alternative financing models to broaden MSMEs' access to capital. To enhance MSMEs' financial literacy and management, implement targeted training programs thereby empowering them to thrive in a competitive market.

6. Create an Enabling Environment for Youth Entrepreneurs

To harness the potential of youth entrepreneurship, it is important to expand access to tailored entrepreneurship education and training programs. Youth-led MSMEs also require financial support mechanisms, such as youth-focused grant schemes and concessional loans. It is also necessary to facilitate market access for youth-owned MSMEs and encourage their participation in high-potential sectors. Furthermore, tackle regulatory barriers, simplify tax compliance procedures, and protect intellectual property rights.

CONCLUSION

The NEI for Uganda in 2024 stood at 57%, reflecting a moderately healthy but developing entrepreneurial ecosystem with significant room for growth. Addressing operational challenges such as low technology adoption, weak business linkages, and high informality is crucial to unlock the full potential of Uganda's entrepreneurial sector. Furthermore, the index highlighted disparities across regions, sectors, and gender, emphasizing the need for targeted interventions to support underserved geographies, women, and PWDs. Addressing these gaps is necessary for the development of an inclusive entrepreneurial ecosystem with equal opportunities and thriving businesses that drive economic resilience and sustainable development.

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