

# POLICY BRIEF



## CAN THE NATIONAL MICRO, SMALL AND MEDIUM ENTERPRISES POLICY REAP FROM FLEXIBILITY?

### EXECUTIVE SUMMARY

Micro, Small and Medium Enterprises (MSMEs) form the bedrock of most economies. They are recognized worldwide, as engines of growth and development and in many countries there has been a conscious effort to support them so as to create the necessary employment opportunities, incomes and productive capacity among other benefits. Many governments and international donor agencies seek to promote the development of such enterprises through establishing support agencies and enterprise development projects. An important element for promoting enterprise development is to have a suitable enabling environment for business establishment, survival and growth. The enabling environment refers, among other things, to policy and regulatory issues, to infrastructure, and to financial and business development services. In this respect, Uganda has drafted a national policy for micro, small and medium enterprises which is under consideration and review by various stakeholders. This policy brief, thus, emerges to augment the feasibility of the national micro, small and medium enterprises policy draft.

*This policy brief proposes the following policy options:*

- a) Deregulating (easing) payment of Taxes and Trading across borders;*
- b) Mainstreaming rights and interests of the Youths and Women in MSME development;*
- c) Engaging (Challenging & Inducing) Multinationals to competitively facilitate MSME Development;*
- d) Ranking enterprises on a basis of their investment levels only; and*
- e) Establishing Business Incubation Services for MSMEs*

### THE RATIONALE FOR A COMPREHENSIVE AND DECISIVE NATIONAL MICRO, SMALL AND MEDIUM ENTERPRISES POLICY

Although MSMEs are undisputable economic backbones of most developing countries as they accelerate economic growth, generate employment and alleviate poverty among other benefits, they often experience several constraints and challenges in their operations. They often face fierce local and international competition, lack general skills in management, marketing and financial planning, limited access to information on market opportunities and sources of competitive technology. These constraints limit substantially the productive capacity and efficiency of MSMEs in Uganda to be competitive especially within the context of globalization. Thus, there is need for Uganda to come up with a comprehensive and decisive National micro, small and medium enterprises policy that facilitates sustainable growth and development of MSMEs which will substantially contribute to National development.

### METHODOLOGY OF THE STUDY

These policy recommendations are based on the analysis and review of the drafted National Micro, Small and Medium Enterprises Policy of Uganda, and issues raised from a presentation and debates by leading MSME experts at a public dialogue on MSME Policy of Uganda which was organized by the Uganda Development Policy Management Forum at Uganda Management Institute on March 29, 2012.

### POLICY RECOMMENDATIONS

#### 1. Deregulate (ease) payment of Taxes and International Trading across borders

Regulations, (i.e. official procedures, cost and time) of paying taxes and trading across borders (export & import trading) pose some of the major constraints to the development of MSMEs in Uganda (World Bank, 2012). Easing (deregulating) payment of taxes and trading across borders greatly improves the investment climate and competitiveness of any country (World Bank, 2011).

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The Ease of Doing Business Index of 2011 shows that, globally, Uganda does not rank among the best 125 countries on the ease of paying taxes and trading across borders. Hence, in order to improve capacity of MSMEs in Uganda to grow and explore regional and international markets, this policy brief recommends the following policy options: a) Uganda should deregulate (ease) payment of taxes by competitively reducing: the number of taxes payable by any enterprise per year; the total tax rate (calculated as a percentage of profits) payable by any enterprise per year, and the time (hours) it takes to pay taxes. b) Uganda should also deregulate (ease) trading across borders by globally competing in reduction of: the number of documents required to export and/or import goods; the average cost of importing and/or exporting goods; and the time it takes to export and/or import goods by any enterprise operating in Uganda.

## **2. Mainstreaming rights and interests of the Youths and Women in MSME development**

The vulnerable and marginalized groups of people in Uganda include women, who constitute over 52% of MSMEs proprietors, and the youths, those aged below 40 years, who comprise over 70% of the total population. These susceptible and increasingly sizeable groups of women and youths can be significantly emancipated from especially poverty and unemployment by engaging in lucrative MSMEs, which are regarded as engines of economic growth and development. Thus, it is deemed logical to recommend special recognition of women and the youth for business-development facilitation in the national MSME policy. Specific recommendations are that 30% and 20% of all forms of business facilitation and opportunities should be exclusively accorded to women and male youths respectively. Such facilitation and opportunities include access to especially financial resources, markets, business logistics and development services that are provided by the state.

## **3. Engage (Challenge & Induce) Multinationals to competitively facilitate MSME Development**

The budget earmarked for implement the National MSME policy is too ambitious for the country to finance in the near future. Therefore it is advisable to subsidize such a huge budget by engaging the multinational corporations, especially those with prospects in the oil industry, to facilitate the establishment, development and sustainability of indigenous MSMEs. The recommended engagement should be in form of: 1) challenging multinationals and all other foreign direct investors to demonstrate their respective corporate social responsibility largely through facilitating the development of several MSMEs belonging to Ugandan citizens; 2) Inducing multinational to facilitate development of local MSMEs by offering tax reductions and other concessions for every MSME facilitated.

Facilitation of local MSMEs development by multinationals may be in form of providing markets for MSME supplies, supplying local MSMEs with subsidized business inputs, mergers and partnerships with local MSMEs, offering superior storage and /or processing/value-addition processes, piggybacking exports for local SMEs, and imparting technical and managerial skills and expertise to local MSMEs.

## **4. Rank enterprises basing on only their investment levels (but not number of employees)**

Organizations are increasingly getting more capital intensive, highly automated and less labour-intensive due to technological innovations and development, and especially the dynamics in the trends and development of information and computer technology (ICT). This enables companies to employ fewer people as they afford to automate and/or acquire robots that can effectively replace human labour. Therefore it misleading to grade enterprises on the basis of the number of employees as observed in the existing National MSME policy draft.

Thus, it is hereby recommendable to rank enterprises on only their level of investments and stop considering the number of employees- for a big capital-intensive enterprise may employ a lot fewer employees than a small, labour intensive enterprise.

## **5. Establish Business Incubation Services for MSMEs**

Most MSMEs in Uganda collapse within one year of their establishment largely because they commence operations without sufficient preparation for the real business environment. Most business start-ups only learn from mistakes made in the real world and some of these mistakes are so grave that businesses fail to sustain their existence. Hence, it is recommendable to devise a policy of establishing business incubation centers countrywide to enable infant MSMEs learn and perfect business ethos under environs insulated against the harsh realities of the real business climate.

## **CONCLUSION**

A comprehensive and decisive National micro, small and medium enterprises policy is essential and vital for the growth, development and sustainability of the Micro, Small and Medium Enterprises in Uganda. Augmenting the existing National micro, small and medium enterprises policy draft with the proposed five policy options herein is one of the measures required for Uganda to emerge with such a decisive National micro, small and medium enterprises policy.



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## READING LIST

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*Dr. Silvester Kugonza (chairman of the dialogue), Naboth Namanya (paper presenter) & Hon. Henry Banyenzaki State Minister for Economic Monitoring President's office*

## RESEARCH TEAM

*Naboth Namanya - Ministry of Finance Planning and Economic Development, Uganda*

*Dismas Byaruhanga - Uganda Management Institute*

*UDMPF Steering Committee Members – William Kaberuka, Yasin Olum, Wilson Mande, Sam Ibanda, Opio Lukone, Ndebesa Mwambustya, Rose Namara, Sylvester Kugonza & Gerald Karyaija, Alfred Kiiza, Stella Kyohairwe, and Christine Rebecca Mubiru.*



*Dr. Willy Kaberuka, Chairman of Uganda Development Management Policy Forum & workshop participants listening to the presentation*



*Dr. Lukonji Bbosa, Director of finance & administration at UMI with participants*



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*Henry Banyenzaki, State Minister for Economic Monitoring - Office of the President officiating at the public dialogue on MSMEs policy*



*Participants to the public dialogue*

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