



# UNLOCKING THE POTENTIAL OF GREEN MICRO, SMALL AND MEDIUM LOCAL GREEN ENTERPRISES IN UGANDA

POLICY RECOMMENDATIONS FROM GREEN ENTERPRISE DIALOGUES  
AROUND THE RIVER RWIZI CATCHMENT



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## **ACRONYMS**

ACODE	Advocates Coalition for Development and Environment
CSOs	Civil Society Organisations
GDP	Gross Domestic Product
GEC	Green Economy Coalition
LGEs	Local Green Enterprises
MSMEs	Green Micro, Small and Medium Enterprises
SDGs	Sustainable Development Goals
UNBS	Uganda National Bureau of Standards
URSBS	Uganda Registration Services Bureau
UGEFA	Uganda Green Enterprise Finance Accelerator

## **1.0 INTRODUCTION**

Over the last year, ACODE has convened several sub-national and national policy dialogues with selected local green enterprises around River Rwizi, composed of policymakers and other stakeholders. The main objectives of these sub-national dialogues were two. The first was to engage with local green enterprises to explore solutions to the problems and challenges they are facing and to engage relevant stakeholders to unlock opportunities to solve these challenges. The second was to equip local green enterprises with skills in resource mobilization, financial literacy and institutional building to enable them to build strong resilient businesses that can stand the test of time. The National Policy Dialogues were intended to kick start discussions with policymakers to unlock key challenges being faced by local green enterprises and to develop and initiate policy actions for systematic change. Specifically, the objectives of the national dialogues were; to discuss ways in how institutions and policymakers could influence access to green financing for local green enterprises; and to provide a platform for key stakeholders and actors to discuss recommendations and provide policy action to challenges faced by those local green enterprises.

As part of the preparations for these dialogues, ACODE undertook a Contextual Financial Analysis of Green Micro, Small, and Medium Enterprises/Local Green Enterprises in Uganda.<sup>1</sup> This report provided an analysis of the contextual financial landscape, including the macroeconomic environment, policy, and regulatory landscapes of green MSMEs/Local Green Enterprises (LGEs) in Uganda under the overall framework of a socially inclusive transformative green economy. The report contributed to a better understanding of the sustainable financial architecture for LGEs and how it affects the activities and priorities of LGEs in Uganda. The report was disseminated during these policy dialogues and guided informed discussions at local and national levels.

This briefing paper highlights key challenges facing green MSMEs/LGEs and provides clear policy recommendations to foster the sustainability of these enterprises. These recommendations were drawn from the policy dialogues that were convened by ACODE with key policymakers and stakeholders.

## **2.0 BACKGROUND**

Local green enterprises (LGEs) offer considerable potential to hasten national transitions to green sustainable economies. LGEs are defined as micro, small, or medium-sized enterprise. These consist of informal and formal micro, small

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<sup>1</sup> ACODE. (2021). A Contextual Analysis of Green Micro, Small and Medium Enterprises/Local Green Enterprises in Uganda, Kampala, ACODE Policy Research Paper Series No.105

and medium enterprises (MSMEs) and social enterprises that use green business models to develop green products or green business practices. They exhibit gender equity, social inclusiveness, cleaner production technologies, climate resilience, and environmentally-friendly businesses. In the Ugandan context, the list of green MSMEs includes enterprises dealing in renewable energy such as solar equipment, batteries, accessories, installations, and repairs; waste treatment, management, and recycling; provision of environmental and energy conserving services, among others. In addition, LGEs and green MSMEs have the potential to positively impact the global or local environment, community, society, or economic situation and a business that strives to meet triple bottom-line returns. They are important actors within local economies and societies and key economic players in driving inclusive and sustainable development in low and middle-income countries throughout the world.

According to the Uganda Investment Authority<sup>2</sup>, MSMEs are the engine of growth for the economic development, innovation, and wealth creation of Uganda. They are spread across all sectors, with 49% in the service sector, 33% in commerce and trade, 10% in manufacturing, and 8% in other fields. Over 2.5 million people are employed in this sector. 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 spite of their significance, these MSMEs and LGEs face challenges related to both their green and social aspirations as well as to their status as local green enterprises.

### **3.0 CHALLENGES FACING LOCAL GREEN ENTERPRISES**

Uganda's economy is dominated by approximately 1,100,000 medium-small enterprises accounting for 75% of GDP and employing over 2.5 million people. MSMEs play a strategic and central role in production and supply chains, value addition, innovation, and development of technology. Local green MSMEs have the potential to facilitate the national transition to an inclusive transformational green economy. Conversely, MSMEs face major challenges that affect their sustainability.

The major constraints are largely linked to their informality, inaccessibility to sustainable financing mechanisms, and lack of weak policy, institutional, legal and regulatory frameworks. As a result of these encumbrances, local green enterprises have a very short life span, with 69 percent aged between 1-10 years old, while 50 percent of the new MSMEs last for less than 12 months, and 80 percent do not make it to their third birthday. Yet, Uganda is ranked among the top most entrepreneurial countries in the world, with one out of every three persons being an entrepreneur.<sup>3</sup>

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<sup>2</sup> <https://www.ugandainvest.go.ug/smes-driving-economy/> accessed on 8/10/2022

<sup>3</sup> Global Entrepreneurship Monitor, 2015

This implies that Uganda's local green enterprises face a significant challenge of sustainability, making a strong case for their greening as a matter of top priority requiring urgent attention.

During the dialogues, the stakeholders noted that the local green enterprises face the following additional challenges: limited financing options for local green enterprises to expand their businesses and develop new green products through innovation; inadequate capacity to build partnerships amongst green enterprises; and poor skills development to provide green economic services and unfavorable policies that do not favor local green enterprises.

Given the diversity of MSMEs, size, ownership structure, focus, and turnover, these challenges cannot be addressed by a one size fits all approach but requires engagement with the eco-system that enables or constrains green entrepreneurship. To stimulate MSME's development and performance; there is a need for a coherent and coordinated policy, institutional and regulatory framework; access to knowledge and business development skills, and access to finance, which emerged as the greatest barrier to MSME's growth.

## **4.0 POLICY RECOMMENDATIONS**

Local green enterprises contribute to greater inclusion and the reduction of inequality, and economic empowerment, fostering community and rural development and driving the development of social and green businesses. Unfortunately, these local green enterprises are left behind. The following recommendations came out of the dialogues:

### *At the local level:*

- o Local Governments and other relevant authorities need to build momentum on existing positive actions undertaken by LGEs to enhance their performance, profitability, and business effectiveness.
- o Green MSMEs should build strategic partnerships with stakeholders from institutions such as UNBS, URSB, ACODE, and GEC to harness their goodwill in unlocking the potential of LGEs.
- o Local Governments need to develop a clear policy that supports and nurtures innovations and review the MSME policy 2015- 2020 to capture green components of MSMEs.
- o Local Governments, in partnership with the private sector and civil society organizations, should build the capacity of LGEs to tap into green financing windows such as Uganda Green Enterprise Finance Accelerator (UGEFA) that provide concessional finance for MSMEs.

- o Local Governments need to organize and hold regular business clinics to support MSMEs in business support services such as certification schemes for green social enterprises to enhance market access and support equity & inclusiveness.
- o Local Governments need to promote and nurture LGE associations as good platforms for networking, information sharing and peer learning on conventional and emerging issues.

*At the National level:*

- o Central Government should green financial institutions. The banking sector plays a critical role in the transition to a green economy. Financial institutions like banks can help reduce risks associated with climate change and sustainability, mitigate the impact of these risks, adapt to climate change, and support recovery by reallocating financing to climate-sensitive sectors/ investments.
- o Central Government and development partners need to build the capacity of financial institutions to go green: Most banks and financial institutions lack a fundamental understanding of how to assess the costs and benefits of LGEs/ green MSMEs. This is evidenced by the relatively low share of green credit in their overall loan portfolios, including the absence of tailored loans for LGEs. Capacity building is needed to develop and innovate green financing products, for instance, insurance products for green MSMEs/LGEs.
- o Central Government and other partners should provide financial support to Local Green Enterprises: Most of the LGE's lack adequate funding to sustain their enterprises. This has affected their efficiency and ability to scale up their green enterprises-limiting their use of new improved technology, among other limitations.
- o Central Government, in partnership with the media and civil society organizations, needs to raise awareness about available green funding sources. Information on eligibility, terms, conditions, and interest rates for accessing finances/loans from financial institutions for LGEs/MSMEs should be widely disseminated to targeted MSMEs/LGEs.
- o Clear governance pathways should be established between financial institutions and LGEs/MSMEs to address the challenge of information asymmetry. The gap between those who have the resources and those who need them should be linked.
- o Central Government through the Ministry of Finance, Planning and Economic Development to reduce tax burden and provide adequate financial incentives to green MSMEs. The tax burden on green MSMEs/LGEs should be lightened. There should be a review of the tax exemptions by the Parliamentary Committee on Finance. There should be financial incentives that stimulate LGEs e.g. reduced interest rates.

- Central Government and other relevant partners need to build the capacity of LGEs. Build the capacity of LGEs to tap into green financing windows such as Green Enterprise Finance Accelerator Uganda (UGEFA) that provide concessional finance for MSMEs. LGEs need training on business skills, management skills, and financial literacy.
- Government needs to provide green Fiscal Reforms by developing a clear policy that supports and nurtures innovations and review the MSME policy 2015- 2020 to capture green components of MSMEs. There is a need for specific policies/regulations that guarantee incentives that promote green investments e.g. easy access to credit and financial services by MSMEs.
- Government and relevant stakeholders ought to build momentum on existing positive actions undertaken by LGEs to enhance their performance, profitability, and business effectiveness.
- Green MSMEs should build partnerships and collaboration with relevant stakeholders and policymakers. Building strategic partnerships with stakeholders from the private sector, government entities (UNBS, URSB), and CSOs to harness LGE's goodwill and unlock their potential. Training should be undertaken for government officials at the central and local levels to further their understanding of the importance of green finance and to explore how the government can actively nurture this emerging sector.
- Government to organize and hold regular business clinics to support LGEs/ MSMEs in business support services such as certification schemes for green social enterprises to enhance market access, and support equity and inclusiveness.
- Government to establish and endorse LGEs Associations. Promote and nurture LGE associations as good platforms for networking, information sharing, and peer learning on conventional and emerging issues.

## **5.0 CONCLUSION**

MSMEs and LGEs are the engine of Uganda's economic growth and are key drivers in fostering innovation, job creation, and wealth creation, including the socioeconomic transformation of the country as envisaged under the Uganda Vision 2040. Leveraging MSMEs and LGEs for inclusive growth is consistent with the Sustainable Development Goals (SDGs), the Africa Agenda 2063, and the East African Vision 2050, all of which the country is already committed to. The dialogues and research undertaken acknowledged the transformative potential of MSMEs and LGEs to deliver not just jobs but also integrated solutions that overcome poverty, accelerate the transition to inclusive and resilient green economies and achieve sustainable development. Green MSMEs and LGEs should therefore be supported

by the relevant actors and policymakers in order to achieve their desired potential. Unlocking this potential will require multi-stakeholder efforts to address the systemic barriers and challenges affecting their growth and sustainability in order to create the enabling conditions for these enterprises to achieve significant impacts.

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Global Entrepreneurship Monitor, 2015

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## **ABOUT ACODE**

The Advocates Coalition for Development and Environment (ACODE) is an independent public policy research and advocacy think tank based in Uganda. ACODE's work focuses on four programme areas: Economic Governance; Environment and Natural Resources Governance; Democracy, Peace and Security; Science, Technology and Innovation. For the last eight consecutive years, ACODE has been ranked as the best think tank in Uganda and one of the top 100 think tanks in Sub-Saharan Africa and globally in the Global Think Tanks Index Report published by the University of Pennsylvania's Think Tanks and Civil Societies Program (TTCSP).

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