Uganda Country Study

The Republic of Uganda

The World Bank

Raising Productivity and Reducing the Risk of Household Enterprises

Study Report
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Disclaimer
The findings, interpretations, and conclusions expressed in this report do not necessarily reflect the views of the Board of Executive Directors of The World Bank or the governments they represent.
ACRONYMS

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<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>AAP</td>
<td>Africa Action Plan</td>
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<tr>
<td>AMFIU</td>
<td>Association of Microfinance Institutions in Uganda</td>
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<tr>
<td>ASCA</td>
<td>Accumulating Savings and Credit Association</td>
</tr>
<tr>
<td>BDS</td>
<td>Business Development Services</td>
</tr>
<tr>
<td>BTVET</td>
<td>Business, Technical and Vocational Education and Training</td>
</tr>
<tr>
<td>BUDS</td>
<td>Business Uganda Development Services</td>
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<tr>
<td>CBOs</td>
<td>Community Based Organisations</td>
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<tr>
<td>CICS</td>
<td>Competitive and Investment Climate Strategy</td>
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<tr>
<td>CPs</td>
<td>Community Polytechnics</td>
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<tr>
<td>DANIDA</td>
<td>Danish International Development Agency</td>
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<tr>
<td>DCO</td>
<td>District Commercial Officers</td>
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<td>DED</td>
<td>German Development Services</td>
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<tr>
<td>DFID</td>
<td>Department for International Development (UK)</td>
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<td>DPSF</td>
<td>Decentralization Policy Strategic Framework</td>
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<tr>
<td>DRC</td>
<td>Democratic Republic of Congo</td>
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<tr>
<td>DTI</td>
<td>Directorate of Industrial Training (MOES)</td>
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<tr>
<td>EAC</td>
<td>East African Community</td>
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<tr>
<td>ESW</td>
<td>Economic and Sector Work</td>
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<td>EU</td>
<td>European Union</td>
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<td>FGDs</td>
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<td>FISA</td>
<td>Federation of Informal Sector Associations</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GOU</td>
<td>Government of Uganda</td>
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<tr>
<td>HEs</td>
<td>Non-farm Household Enterprises</td>
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<td>ICA</td>
<td>Investment Climate Assessment</td>
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<tr>
<td>ICCLS</td>
<td>International Conference of Labour Statisticians</td>
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<tr>
<td>ICT</td>
<td>Information Communication Technology</td>
</tr>
<tr>
<td>IDA</td>
<td>International Development Association</td>
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<tr>
<td>IDRC</td>
<td>International Development Resource Centre</td>
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<td>ILO</td>
<td>International Labour Organisation</td>
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<tr>
<td>KIBP</td>
<td>Kampala Industrial Business Park</td>
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<tr>
<td>LC</td>
<td>Local Council</td>
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<tr>
<td>MCP</td>
<td>Master Craftsman Program</td>
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<td>MDI</td>
<td>Microfinance Deposit taking Institutions</td>
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<td>MFIIs</td>
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<tr>
<td>MoES</td>
<td>Ministry of Education and Sports</td>
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<tr>
<td>MoP</td>
<td>Microfinance Outreach Plan</td>
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<tr>
<td>MPS</td>
<td>Ministry of Public Service</td>
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<td>MSCL</td>
<td>Microfinance Support Centre Limited</td>
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<td>MSEs</td>
<td>Micro and Small sized Enterprises</td>
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<td>MSMEs</td>
<td>Micro, Small and Medium sized Enterprises</td>
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<tr>
<td>MTTI</td>
<td>Ministry of Tourism, Trade and Industry</td>
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<tr>
<td>NAADS</td>
<td>National Agricultural Advisory Services</td>
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<tr>
<td>NDP</td>
<td>National Development Plan</td>
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<tr>
<td>NEMA</td>
<td>National Environmental Management Agency</td>
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NGOs  Non-Governmental Organisations
NPA  National Planning Authority
NPPAs  National Priority Programme Areas
NTDP  National Trade Development Plan
PEAP  Poverty Eradication Action Plan
PEVOT  Promotion of Employment Oriented Vocational Training
PFA  Prosperity for All
PMA  Plan for the Modernisation of Agriculture
PPET  Post Primary Education and Training
PPP  Public-Private Partnership
PREM  Poverty Reduction and Economic Management network
PSFU  Private Sector Foundation Uganda
RGCs  Rural Growth Centres
ROSCA  Rotating Savings and Credit Association
SACCOs  Savings and Credit Cooperative organisations
SMEs  Small and Medium sized Enterprises
TVET  Technical, Vocational Education and Training System
UBOS  Uganda Bureau of Statistics
UCA  Uganda Cooperative Alliance
UCSCU  Uganda Cooperative Savings and Credit Union
UEPB  Uganda Export Promotion Board
UGAPRIVI  Uganda Association of Private Vocational Institutes
UGX  Uganda Shillings
UIA  Uganda Investment Authority
URIR  Uganda Industrial Research Institute
UNBS  Uganda National Bureau of Standards
UNCCI  Uganda National Chamber of Commerce and Industry
UNDP  United Nations Development Program
UNHS  Uganda National Household Survey
UNIDO  United Nations Industrial Development Organisation
UPE  Universal Primary Education
UPTOP  Uganda Program for Trade Opportunities and Policy
URA  Uganda Revenue Authority
USAID  United States Agency for International Development
USD  United States Dollars
USSIA  Uganda Small Scale Industries Association
UWEAL  Uganda Women Entrepreneurs Association
VSLA  Village Savings and Loans Association
VTI  Vocational Training Institutes
WIEGO  Women in Informal Employment: Globalizing and Organising (network)
EXECUTIVE SUMMARY

01. Background
Since 1986, the Ugandan economy has undergone major structural changes with Agriculture declining in importance while industry and especially services have been growing rapidly. The labour force responded by shifting out of agriculture into these higher productivity sectors. Since 1992, family farming has experienced the slowest growth of all types of labor market activities, while non-farm enterprises, have grown rapidly. The nature of changes in the structure of the economy and employment, and the distribution of the gains from these changes has brought a highly positive impact of growth on poverty. Previous analyses have identified the presence of an HE (non-farm household enterprise) as a key element in lifting households out of poverty, both in the rural areas and in urban areas. HEs have grown rapidly in importance, to a level where they now represent the primary occupation of 13% of the labour force (33% in urban areas). In 2006, 40% of households in rural areas and 57% of households in urban areas reported that someone in their household operated an HE. The Government of Uganda is in the process of preparing a National Development Plan (NDP). As part of this process, a National Industrial Strategy has been prepared and the Government now seeks to prepare a strategy for the smallest enterprises in the informal sector. As a contribution to the process, the World Bank commissioned the Uganda County Study to support the development of a national strategy for increasing the productivity of HEs.

02. Study objectives and approach employed
In order to design policies and interventions that can turn HEs into an engine of employment and income growth, a better understanding of the dynamics, challenges, constraints and the potential of HEs is essential. Accordingly, the study sought to investigate the main challenges, constraints and problems affecting the productivity of HEs, and the policies, programs and institutions affecting HE operations. The study involved identifying and reviewing available studies and reports about the performance of HEs, and relevant policies, programs and institutions. The study also involved consultations with stakeholders including a field study during which 30 focus group discussions and 466 structured interviews were conducted with a sample of HEs drawn from rural as well as urban areas across the country.

03. Findings and recommendations
03.1. Coordination of HE support initiatives
While the study has found some initiatives working well for the HE sector, it also found that their efforts are uncoordinated, with limited coverage and little or no hope that any success they may realise will be replicated across the country. At the policy and institutional level, the study found neither a national policy nor a national institution with a dedicated focus on HEs. The study also found that initiatives seeking to improve the skills and knowledge levels of HEs were still very few.

The study recommends the creation of a National Coordination Committee (NCC) comprising key stakeholders, including key ministries & public bodies such as Private Sector Foundation (PSFU) and Uganda Investment Authority (UIA), to coordinate HE support initiatives. In order to maximise coverage and the intervention’s chances of success, the study recommends that an HE function be introduced at the sub-county level with a view to making the sub-county the centre for coordination and monitoring of all HE support initiatives.

03.2. Delivery of financial services
While Government and service providers have done much to enhance the deepening of financial services, the study found that lack of capital remains a serious challenge among HEs. It has also been found that governance issues in some Savings and Credit Cooperative Organisations (SACCOs) are undermining the
SACCO image as a possible model vehicle for the delivery of financial services. This situation is not helped by the finding that many SACCO members are not aware of their rights and responsibilities as well as those of the executives they have elected into office.

Notwithstanding the shortcomings observed, the study supports the view that the SACCO model could be a good vehicle for improving the delivery of financial services to HEs, provided that arrangements are put in place to mitigate the challenges encountered. The study recommends that where they are already in place, existing SACCOs that are genuine should be strengthened with a view to making them attractive to HEs, and where none exist, arrangements should be made to stimulate and facilitate the formation of new ones around common business interests. It is also recommended that arrangements should be made to provide regular training to SACCO members at the sub-county level covering their rights and obligations with a view to equipping them with the skills they need to check the excesses of their executives.

03.3. Access to worksites and infrastructure
The study found that lack of a suitable worksite and infrastructure is a serious problem for HEs, with one in every five HEs surveyed reporting it as their main challenge. The few initiatives found to be working to improve HEs' access to suitable worksites, had their focus on the manufacturing sector leaving out the vast majority that are engaged in non-manufacturing activities. It has also been found that many HEs are unable to increase productivity due to the vulnerabilities they face as a result of operating from unsuitable worksites, and the poor state of road infrastructure as well as electricity supply related challenges. The study also found that many HEs are devastated by unfair taxation practices, and the cruel and high handed methods used by urban and other local government authorities in their law enforcement duties.

The study recommends that a program be designed to improve HEs' access to suitable worksites, using the proposed Luwafu Jua Kari industrial/business park as a model. The study also recommends that taxation practices and methods used by urban and local government authorities' enforcement officials against HEs should be reviewed with a view to minimising the incidence of unnecessary destruction of property and livelihoods of HEs.

03.4. Pilot project
It is proposed that the recommendations made be tested under a pilot project in order to establish their effectiveness especially with regard to the competencies of CDOs vis-à-vis the enhanced level of operations inherent in the new job design, and also to test the appetite of HEs to embrace the proposed initiative which ultimately formalizes them through the formation and registration of HE groups. The pilot would include at least one sub-county from each of the country's four regions.
Chapter 1

Introduction

1.1. Background

Introduction
Uganda is one of the few countries in Africa that have been able to turn recovery from civil conflict into 20 years of sustained economic growth. Since 1986, the Ugandan economy has undergone major structural changes, with Agriculture declining in importance while industry and especially services grew rapidly. The labour force responded by shifting out of agriculture into these higher productivity sectors. Since 1992, family farming has experienced the slowest growth of all types of labor market activities, while non-farm enterprises, have grown rapidly. The nature of changes in the structure of the economy and employment, and the distribution of the gains from these changes has brought a highly positive impact of growth on poverty. Previous analyses have identified the presence of an HE (household enterprise) as a key element in lifting households out of poverty, both in the rural areas and in urban areas.

Household Enterprises
HEs (Household Enterprises) consist of self-employed (or own-account) workers and unpaid family members engaged in non-farm business activities, at the lower end of what is often categorized as micro, small and medium enterprises (MSMEs). They lie at the intersection of enterprise-based and labor-based perspectives, and hence of growth and poverty reduction strategies. From an enterprise perspective, the focus tends to be on improving productivity and competitiveness in enterprises as a source of growth in profitability, sales and employment. From a labor market perspective, the important role of HEs is to absorb surplus labor and help households cope with poverty related vulnerability.

The Household Enterprises Sector
The non-farm household enterprise sector has been the fastest growing in Uganda since 1992, and since 2002/3 it has grown at 12 percent per annum – one of the fastest rates in Africa (Fox, 2009). The sector has been a good employment choice for those with less than secondary education because earnings are higher than in agriculture, on average, and poverty is lower. HEs have grown rapidly in importance, to a level where they now represent the primary occupation of 13 percent of the labour force (33% in urban areas). In 2006, 40% of households in rural areas and 57% of households in urban areas reported that someone in their household operated a non-farm enterprise.

Strategy for the Household Enterprises sector
On its own initiative, the Government of Uganda is in the process of preparing a National Development Plan (NDP). As part of this process, a National Industrial Strategy has been prepared and the Government would like to prepare a strategy for the smallest enterprises in the informal sector. This initiative is in line with the current thinking at the World Bank. Promoting income-generating activities for the poor is one of the priorities for the shared growth pillar of the World Bank’s Africa Action Plan. Since most of the non-agricultural poor in African countries are engaged in the informal economy,\(^1\) largely through household-based activities, a better understanding of the dynamics, constraints and potential of informal enterprises and workers is essential for designing policies and interventions that can turn them into an engine of employment and income growth rather than simply a mechanism for coping with vulnerability and sharing poverty. This is no simple task, as the informal economy is heterogeneous and can be viewed

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\(^1\) Agriculture in African countries is also predominantly informal, and may or may not be included in analysis of the informal economy, depending on the purpose and definition. The focus here is on non-agricultural income-earning activities – which farmers may also engage in as a secondary activity. The terms “informal economy” and “informal enterprises and workers” are used to emphasize the heterogeneity and overlapping continuums of degrees of formality by different criteria, whereas the term “informal sector” connotes a duality that simplifies but does not correspond to the reality.
differently from different perspectives. The informal economy must be understood from the bottom up to design programs that will work in a particular country context and will enable markets to work better for the poor. Accordingly, the Bank commissioned the Uganda Country Study to support the development of a national strategy for increasing the productivity of Household Enterprises, as an input into the ongoing process of preparing the National Development Plan (NDP).

**Study objectives**
The overall objective of the Uganda Country Study therefore is to support the development of a National Strategy for increasing the productivity of Household Enterprises in Uganda, and to prepare a Case Study for the African Regional multi-year study of the informal economy. In order to design policies and interventions that can turn HEs into an engine of employment and income growth, a better understanding of the dynamics, constraints and potential of informal enterprises and workers is essential. Accordingly, the country study sought to investigate (a) the main challenges, constraints and problems affecting the productivity of HEs, (b) the policies, programs and institutions that either support (or restrict) the operations of HEs, or may have unintended consequences for them.

**1.2. Study Methodology**

**Approach used**
The country study consisted of three main stages. Stage 1 involved the inventorying of secondary sources of data available in the country about the characteristics and performance of HEs. The main objective of this stage was to identify secondary sources of information including reports about HEs (and the informal economy as a whole), as well as policies, laws and regulations affecting the operations of household enterprises. Information about HEs included *inter-alia* constraints in the formation, operation and growth of household enterprises. In addition to inventorying secondary sources of data, stage 1 also involved inventorying Policies, Programs and Institutions that are either explicitly intended to promote (or restrict) informal income-generating activities, including HEs, or may have unintended consequences for them.

Stage 2 involved organising a stakeholders’ workshop to present preliminary findings of the country study arising from stage 1. Attendance at the stakeholders’ workshop included government agencies, donors, NGOs, and representatives of associations from the informal sector. In addition to the workshop, stage 2 also involved conducting a field study. Stage 3 of the country study was designed to cover reporting including organising the final National Stakeholders’ Workshop.

The field study involved conducting structured interviews (SIs) and focus group discussions (FGDs) covering individual HEs, organisations representing HEs and representatives of programs and institutions with an interest in HEs. The process of designing the field study was informed *inter-alia*, by the Diagnostic Methodology Framework (Annex 1) as well as relevant studies and reports inventoried under Stage 1(Annex 2).

**Study Sample**
Owing to different weather patterns and at times different cultural practices, factors affecting productivity and risks facing HEs in Uganda were expected to vary, at least in weight, from region to region. Even within regions, it was expected that the level of urbanization and the character of the local economy would tend to influence the environment and in particular the market conditions under which HEs operate. Accordingly, the sample for the field study was designed to include HEs from different levels of urbanization, regions and districts covering both urban as well as rural based HEs. In addition to HEs operating from regular markets, there are other HEs that do not operate from this type of environment. Such HEs include those engaged in trades such as motor vehicle repair, carpentry, hair studios,
restaurants, and transport and home based HEs. In addition to HEs, the other key informants for the study included stakeholders whose decisions and actions directly promote or restrict the operations of HEs, and affect their success or failure. Such stakeholders include local government as well as urban authorities, Non-Governmental Organisations (NGOs), and various associations representing HEs. Owing to the varied nature of informants it became necessary to use varied methodologies for interacting with them and obtaining their views. Accordingly, the views of household entrepreneurs were captured in homogeneous focus group discussion (FGDs) as well as structured interviews (SIs), to which they were expected to be most responsive.

Altogether 30 sites were selected to host (FGDs), out of which 13 were selected from urban centres and 17 from rural centres (Table 1.1). The 13 urban centres selected included 2 towns and one municipality from each region. In the case of central, and excluding the pilot site, only one town was selected and 2 sites (divisions) were selected from Kampala. Save for the pilot site, the 17 rural centres included 4 sub-counties from each region. At each site, local authorities were consulted and their assistance sought in selecting entrepreneurs to participate in the survey. With the exception of the sites in Kampala, the number of participants to the survey was limited to 15. Kampala was allowed 20. In selecting entrepreneurs to participate in the survey, efforts were made to ensure that as much as possible no one economic activity had more representation at the expense of the others.

<table>
<thead>
<tr>
<th>Level</th>
<th>FGDs</th>
<th>SIs</th>
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<tr>
<td>1 Pilot (Kiboga Town &amp; Ntunda Sub-county)</td>
<td>2</td>
<td>28</td>
</tr>
<tr>
<td>2 Kampala</td>
<td>2</td>
<td>38</td>
</tr>
<tr>
<td>3 Municipalities (3x1)</td>
<td>3</td>
<td>45</td>
</tr>
<tr>
<td>4 Towns – Central region (1x1)</td>
<td>1</td>
<td>16</td>
</tr>
<tr>
<td>Towns – Other regions (3x2)</td>
<td>6</td>
<td>91</td>
</tr>
<tr>
<td>5 Sub-Counties by region</td>
<td></td>
<td></td>
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<tr>
<td>Central (4 sub-counties @ 1)</td>
<td>4</td>
<td>67</td>
</tr>
<tr>
<td>Eastern (4 sub-counties@ 1)</td>
<td>4</td>
<td>60</td>
</tr>
<tr>
<td>Northern (4 sub-counties@ 1)</td>
<td>4</td>
<td>60</td>
</tr>
<tr>
<td>Western (4 sub-counties @ 1)</td>
<td>4</td>
<td>61</td>
</tr>
<tr>
<td>Totals</td>
<td>30</td>
<td>466</td>
</tr>
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</table>

It was understood that while SMEs will normally have fixed commercial premises from where they operate and while many micro enterprises operate from market stalls or some fixed premises in urban centres, the vast majority of HEs do not operate from this kind of environment because their turnover is normally too small. As a result they tend to operate from informal make-shift premises, like road side markets in the large urban centres and along the highways as well as in village markets in the rural areas, or directly from the household in neighbourhoods. Often HEs are clustered in residential neighbourhoods. Accordingly, identifying households with household enterprises involved working with local authorities, local NGOs and other key informants based within the communities. It also meant visiting not only market places, but also neighbourhoods with households likely to have household enterprises. As a result, the sample did not only include trading enterprises, but also included HEs involved in transportation, manufacturing, etc.
1.3. Structure of the report

The report is divided into four chapters including the introduction. Chapter 2 presents a descriptive analysis of non-farm household enterprises (HEs) covered by the study as well as all other HEs in the country. The analysis is presented in five sections namely: Socio economic characteristics of HEs (Section 2.2); Economic activities undertaken by HEs (Section 2.3); Challenges, constraints and problems faced by non-farm household enterprises (Section 2.4); and Vulnerabilities faced by non-farm household enterprises (Section 2.5).

Chapter 3 presents the policies, laws and regulations as well as programs and institutions affecting the operations of household enterprises as identified. The findings are presented under four sections namely: Financial services delivery (Section 3.2); Access to proper worksites and infrastructure (Section 3.3); Access to Skills & Business Development Services (BDS) (Section 3.4); and General support (Section 3.5).

Chapter 4 presents the study's recommendations together with the issues that they seek to address. The chapter is divided into three main sections corresponding to the main issues identified by the study, namely: Coordination of HE support initiatives (Section 4.2); Delivery of financial services (Section 4.3); and Access to proper worksites (Section 4.4). Coordination, which is presented in section 4.2, covers the issues of lack of coordination of HE support initiatives; inadequate business knowhow; lack of access to skills and business development services; lack of effective organisation among HEs as well as all other issues other than those covered under financial services delivery and access to proper worksites and infrastructure.
Chapter 2

A Descriptive analysis of
Non-farm Household Enterprises

2.1. Introduction
This chapter presents a descriptive analysis of non-farm household enterprises (HEs) covered by the study and HEs in the country as a whole. The analysis is presented in five sections namely socio economic characteristics (2.2), analysis of economic activities undertaken by HEs (2.3), challenges and problems faced by HEs (2.4), and vulnerabilities faced by HEs (2.5). In its analysis, this chapter utilises data from the National Household Survey reports of 1999 and 2005, as well as the field study report (Stage 2). While data from UNHS represents micro and small enterprises (MSEs), the main focus of the field study, which had a limited coverage, was non-farm household enterprises.

2.2. Socio economic characteristics

2.2.1. Age of HEs in Uganda
The average age of HEs in Uganda was 7.7 years in 1999, a situation that remained approximately unchanged at 7.4 years in 2005 (UNHS 1999/00, 2005/06). However the situation across the regions was slightly different. The average age fell from 9.1 to 7.6 years in Northern rural, from 8.3 to 5.7 years in Northern urban, and from 9.1 to 6.9 years in Western rural. This decline in the mean age indicates either an increase in the rate of establishment of new firms, so that there are relatively more young firms in 2005 than there were in 1999, or an increase in the rate of closure of older firms, so that there are relatively fewer older firms than previously. Given the rate of growth of HEs reported in the statistics, the decline in mean age is likely to be largely due to the former.

2.2.2. Gender of owners of HEs
Of the approximately 1.7 million HEs in Uganda in 1999, 53 percent or 911 000 were male owned and 46 percent or 784 000 were female owned. The rapid growth in the number of HEs, mentioned earlier, was proportionally spread across both male and female HE owners, as evidenced by the virtually unchanged gender shares in 2005 (UNHS 1999/00, 2005/06). By 2005, there were 1.2 million female HE owners, approximately 55 percent more than in 1999, while the number of male HE owners increased by just under 60 percent.

2.2.3. Location of HEs
The Central region of Uganda was home to the largest number of HEs in 1999, at around 580 000 or 34 percent of the total (Table 2.1). This was followed by the Eastern and Northern regions with 429 000 and 391 000 HEs respectively, each accounting for around one-quarter of HEs. Just less than one in five HEs were located in the Western region. Amongst urban HEs, the Central region was even more dominant, accounting for almost two-thirds (63 percent) of HEs, while the Eastern region accounted for 18 percent. Rural-based HEs were more evenly distributed across the four regions, with the Northern and Eastern regions accounting for around 27 percent of all rural HEs. The dominance of rural-based HEs is clear, with rural areas accounting for more than 90 percent of all HEs in the Northern region, and over 80 percent in the Eastern and Western regions. It is only in the Central region that the rural share is lower than 80 percent, at roughly one-half.
Table 2.1: Distribution of Non-Farm Household Enterprises by Region, 1999 and 2005

<table>
<thead>
<tr>
<th>Region</th>
<th>1999 Number ('000s)</th>
<th>1999 Distribution</th>
<th>2005 Number ('000s)</th>
<th>2005 Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Urban</td>
<td>Rural</td>
<td>Total</td>
</tr>
<tr>
<td>Central</td>
<td>580</td>
<td>34</td>
<td>63</td>
<td>1065</td>
</tr>
<tr>
<td>Eastern</td>
<td>429</td>
<td>25</td>
<td>18</td>
<td>523</td>
</tr>
<tr>
<td>Northern</td>
<td>391</td>
<td>23</td>
<td>8</td>
<td>590</td>
</tr>
<tr>
<td>Western</td>
<td>305</td>
<td>18</td>
<td>11</td>
<td>528</td>
</tr>
<tr>
<td>Total</td>
<td>1704</td>
<td>100</td>
<td>100</td>
<td>2706</td>
</tr>
</tbody>
</table>


Between the two surveys, the number of HEs grew rapidly, particularly in the Central and Western regions: in the former, the number of HEs grew by nearly half a million, from 580,000 to almost 1.1 million, while in the latter it nearly doubled from 305,000 to 528,000, equivalent to annual growth rates of almost 11 percent and ten percent respectively. Consequently, by 2005 the Central region had extended its share of HEs, to nearly two-fifths (39 percent). The Western region, in turn, had caught up with the Eastern and Northern regions, accounting for 19 percent of all HEs. The dominance of the Central region in 2005 extends to both urban and rural HEs, although this is particularly marked in terms of urban HEs. Growth over the period was slightly more rapid for rural-based HEs (8.1 percent per annum, compared to 7.7 percent for urban-based HEs), although the share of all HEs that were based in urban areas remained at one-quarter over the period.

2.2.4. Educational standard of HEs covered by the survey

According to data from the field survey, the number of HE owners whose educational standard is P3 and below is only 12%. On the other hand, more than 50% of HE owners had attained a standard of O Level and beyond (Fig 2.1). This would imply that most HE owners are sufficiently literate to benefit from skills training if it became a strategy to empower this sector with training & BDS.

Fig. 2.1: Educational standard of HE owners

Source: Field survey April 2009.

2.2.5. Employment creation by HEs

According to data from the field, about three in every five HEs covered by the study were employing one or more persons in their enterprise (Fig 2.2). The rest (43%) were own account. The study also found that HEs which contributed more in job creation than the others were in Retail, Manufacturing, Services and Hotel/Restaurant sectors accounting for more than 80% of all jobs created. However, the study also found
that the proportion of HEs employing more than 2 persons was only 21%. Accordingly about four in every five HEs are employing only up to 2 persons each.

**Fig. 2.2: No of persons employed per HE (%)**

![Bar chart showing the distribution of persons employed per HE](chart)

*Source: Field survey, April 2009.*

A review of employment creation by gender of HE owners reveals that male owned HEs are creating more job opportunities than female owned HEs, with two in every three male owned HEs covered by the study employing up to two people each. Only two in every five female owned HEs have attained the same level of employment creation.

### 2.3. Analysis of economic activities undertaken by HEs

#### 2.3.1. Economic activities undertaken by HEs by sector

While household enterprises operate in every sector and are engaged in a very wide range of activities (Table 2.2), it is apparent that more than half of all HEs covered by the study are engaged in the retail and the services sectors (Fig. 2.3).

**Fig 2.3: Economic activities undertaken by HEs by sector (share %)**

![Bar chart showing economic activities](chart)

*Source: Field Survey, April 2009.*
Manufacturing which is harder for HEs to enter because of the capital requirements involved comes second to retail as the sector of choice with a share of 21.2%. Between them, manufacturing, retail, and the services sectors account for 73% of all household enterprises covered by the study.

2.3.2. Economic Activities undertaken by HEs by residence

The economic activities undertaken by household enterprises cut across sectors and residence types although Services and Transport HEs appear to be more prevalent in the urban than they are in the rural areas. While retail and manufacturing are the dominant sectors overall with a combined share of 63.7% of all HEs surveyed, the sectors’ level of dominance appears to be more pronounced among rural based HEs accounting for 43.7% and 23.8% of all rural based HEs respectively against the equivalent level for urban based HEs of 40.9% and 17.7% respectively (Table 2.2).

Table 2.2: Economic Activities undertaken by HEs by Residence (share)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Rural</th>
<th>Urban</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>1.6</td>
<td>2.2</td>
<td>1.8</td>
</tr>
<tr>
<td>Mining</td>
<td>0.4</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>23.8</td>
<td>17.7</td>
<td>21.2</td>
</tr>
<tr>
<td>Construction</td>
<td>1.2</td>
<td>2.7</td>
<td>1.8</td>
</tr>
<tr>
<td>Sales, Maintenance &amp; Repair of M/Vehicles</td>
<td>6.7</td>
<td>8.1</td>
<td>7.3</td>
</tr>
<tr>
<td>Wholesale</td>
<td>1.2</td>
<td>0.5</td>
<td>0.9</td>
</tr>
<tr>
<td>Retail &amp; Repair of personal &amp; household goods</td>
<td>43.7</td>
<td>40.9</td>
<td>42.5</td>
</tr>
<tr>
<td>Hotels &amp; restaurants</td>
<td>5.6</td>
<td>4.8</td>
<td>5.3</td>
</tr>
<tr>
<td>Transport &amp; Communications</td>
<td>4.4</td>
<td>7.0</td>
<td>5.5</td>
</tr>
<tr>
<td>Financial &amp; Other Services</td>
<td>7.1</td>
<td>12.4</td>
<td>9.4</td>
</tr>
<tr>
<td>Public admin/ education</td>
<td>1.2</td>
<td>0.5</td>
<td>0.9</td>
</tr>
<tr>
<td>Health &amp; social work</td>
<td>3.2</td>
<td>2.7</td>
<td>3.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Field survey, April 2009*

2.3.3. Economic Activities undertaken by age of HE owner

According to the data from the field, the age of an HE owner appears to bear some influence on the type of economic activity undertaken with the Services and Transport sectors being dominated by HE owners aged less than 30 years of age (Table 2.3).

Table 2.3: Economic activities and the age of the HEs Owner

<table>
<thead>
<tr>
<th>Sector</th>
<th>&lt;30 years</th>
<th>≥30 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>23.7</td>
<td>76.3</td>
</tr>
<tr>
<td>Sales &amp; repair of MVs</td>
<td>34.4</td>
<td>65.6</td>
</tr>
<tr>
<td>Retail</td>
<td>27.4</td>
<td>72.6</td>
</tr>
<tr>
<td>Hotels &amp; restaurants</td>
<td>21.7</td>
<td>78.3</td>
</tr>
<tr>
<td>Transport &amp; Communications</td>
<td>58.3</td>
<td>41.7</td>
</tr>
<tr>
<td>Financial &amp; other services</td>
<td>58.5</td>
<td>41.5</td>
</tr>
<tr>
<td>Other</td>
<td>23.1</td>
<td>76.9</td>
</tr>
<tr>
<td><strong>All sectors</strong></td>
<td><strong>31.1</strong></td>
<td><strong>68.9</strong></td>
</tr>
</tbody>
</table>

*Source: Field survey, April 2009*
The reason for this tendency may have been implied by responses received during the focus group discussions to the question regarding participants’ motivation to start their enterprises. In response to this question, many indicated that they chose their enterprise because it required little capital to get started. Many of the HEs in this age bracket who held this perception tended to start enterprises in these sectors.

On the other hand, at least three quarters of HE owners in the Manufacturing, Hotels & Restaurants sectors were aged 30 and above (Fig 2.4 & Table 2.3). This is possibly because this age group may be more able to mobilise the resources necessary to finance the capital requirements involved in these sectors’ more capital demanding ventures.

Fig 2.4: Age distribution of HE owners in Manufacturing & Retail Sectors

![Graph showing age distribution of HE owners in Manufacturing & Retail Sectors](image)

Source: Field survey, April 2009.

2.3.4. Economic Activities undertaken by gender of owner

According to data from the field, the gender of the owner of a household enterprise may have an influence over what economic activity he/she may chose to start. It has been found that while half of all women HE owners surveyed were engaged in the Retail sector, only 2 out of every 5 men were engaged in the sector (Fig 2.5, Table 2.4). In addition, while 11% of all women owners of HEs surveyed were operating in the Hotels & Restaurants sector, only 3% of all men surveyed were in the same sector.

Table 2.4: Economic activities of HEs by Gender of Owner

<table>
<thead>
<tr>
<th>Econ activity</th>
<th>Male</th>
<th>Female</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>22</td>
<td>20</td>
<td>21</td>
</tr>
<tr>
<td>Sales, maintenance &amp; repair of MVs</td>
<td>9</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>Retail, repair of household goods</td>
<td>40</td>
<td>50</td>
<td>42</td>
</tr>
<tr>
<td>Hotels &amp; restaurants</td>
<td>3</td>
<td>11</td>
<td>5</td>
</tr>
<tr>
<td>Financial &amp; other services</td>
<td>9</td>
<td>11</td>
<td>9</td>
</tr>
<tr>
<td>Other sectors</td>
<td>18</td>
<td>6</td>
<td>14</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field survey, April 2009.

On the other hand, while 9% of all men surveyed were operating in the Sales, maintenance and repair of motor vehicles sector, there were only 3% women HE owners operating in the same sector. Presumably,
this could be because maintenance and repair of motor vehicles in Uganda is traditionally a manual job dominated by the men.

**Fig. 2.5: Economic activities undertaken HEs by Gender of owner**

![Graph showing economic activities undertaken by HEs by gender](image)

*Source: Field survey, April 2009.*

In the _‘other’_ sectors, while 18% of all male owners of HEs surveyed were engaged in the _‘other’_ sectors, the equivalent ratio among the female folk was only 6%. The _‘other’_ sectors include: Agriculture (non-farm), Mining, Construction, Wholesale, Transport & Communications, Education, Health & Social Work, and they accounted for 14% of all HE owners surveyed.

### 2.3.5. Motivation to start a household enterprise

According to focus groups covered by the study, different people are motivated by different factors to start HEs. There was no significant difference between the regions and there were minor differences between rural and urban based HEs. However, while in the majority of cases, the decision to start an enterprise was a forced one, there were many cases where a deliberate decision had been taken to move from paid employment or from some other full time activity to start a household enterprise (Sec 2.9, Field Report).
2.4. Challenges and problems faced by non-farm household enterprises

2.4.1 Introduction and overview

This section presents details regarding the challenges, problems and constraints most frequently faced by household enterprises in starting and in operating their businesses. The challenges are analysed individually with a view to establishing: (a) The nature and extent of the challenge, (b) The effect the challenge has had on the household enterprises affected, (c) Possible interventions perceived by HEs as necessary to address the challenge. The section is based on findings of the field study whose main purpose was to establish from HEs themselves what they find to be the most critical challenges affecting the productivity of their enterprises.

Table 2.5: Main challenges faced by HEs

<table>
<thead>
<tr>
<th>Constraint</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inadequate capital</td>
<td>40</td>
</tr>
<tr>
<td>Lack of business knowhow</td>
<td>24</td>
</tr>
<tr>
<td>Lack of proper worksite</td>
<td>21</td>
</tr>
<tr>
<td>Inadequate skills</td>
<td>8</td>
</tr>
<tr>
<td>Other</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Field survey, April 2009*

According to data from the survey, inadequate capital and lack of a proper worksite are the main challenges faced by more than 60per cent of the HEs covered by the study (Table 2.5, Fig 2.6). In this context, lack of a proper worksite includes: lack of a work place, lack of a suitable work place, lack of storage space, lack of a suitable storage space; electricity power supply related problems; and poor road and rail infrastructure. Lack of a suitable work place includes worksites without a shed and exposed to the rains and the hot sun, and worksites considered as insecure but used by HEs for lack of access to worksites that they would consider secure.

The other challenges affecting the productivity of HEs include lack of business knowhow and inadequate skills with a share of 24% and 8% respectively. Lack of business knowhow covers the incidence of bad debts and the other problems arising from failure to find buyers.

Fig. 2.6: Main challenges faced by Household Enterprises (%)

*Source: Field survey, April 2009*
### 2.4.2 Inadequate capital

(a) Nature and extent of the challenge of inadequate capital

Inadequate capital is the most frequently cited challenge by most HEs covered by the study (Table 2.5, Fig 2.6, and Table 2.8). The challenge covers the various difficulties faced by HEs in the day to day operations of their businesses including the following:

- Difficulties in procuring material inputs due to inadequate capital;
- Difficulties in acquiring tools and a suitable worksite due to inadequate capital;
- Difficulties in accumulating savings to finance start-up capital;
- Inability to satisfy customer orders due to limited working capital;
- Cost of raw materials too high, unable to make the less costly bulk purchases;
- Costs of tools & spares, utilities and fuel for generator too high.

The challenge of inadequate capital also includes situations where a household enterprise experiences difficulties in starting and in operating a business because of failure or delays to obtain credit. According to data from the field, inadequate capital or lack of access to finance is undoubtedly the most crucial among all challenges experienced by household enterprises in Uganda. While many HEs try and fail to raise credit from financial institutions, even those which eventually succeed reported difficulties in the process. The challenge affects urban and rural based HEs almost equally, with 65% of rural based HEs and 71% of the urban based HEs reporting difficulties in raising finance for their enterprises (Fig. 2.7). Altogether, 68% of all households covered by the study reported experiencing difficulties in raising finance for their enterprises. While 32% of HEs covered indicated that they did not experience any difficulties in raising finance, only 10.7% of all households participating in the survey indicated that they were accessing finance from financial institutions.

![Fig. 2.7: HEs experiencing difficulties raising finance by Residence](image)

**Source: Field survey, April 2009**

According to household enterprises covered by the study, the main difficulties experienced in their endeavour to raise finance include difficulties in finding acceptable collateral to secure their borrowing; the rate of interest charged being too high for their kind of margins; the maximum loan size allowed by the financial institution being too small to satisfy the purpose for the borrowing; the loan process being
too long and tedious to deliver the required funds at the time needed; and the repayment period being too short to cover the need fully (Table 2.6).

### Table 2.6: Difficulties experienced in raising finance

<table>
<thead>
<tr>
<th>Difficulty experienced</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raising collateral</td>
<td>34%</td>
</tr>
<tr>
<td>Interest rate too high</td>
<td>28%</td>
</tr>
<tr>
<td>Repayment terms too harsh</td>
<td>12%</td>
</tr>
<tr>
<td>Long/tedious loan process</td>
<td>6%</td>
</tr>
<tr>
<td>Maximum loan size too small</td>
<td>6%</td>
</tr>
<tr>
<td>Repayment period too short</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>9%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

*Source: Field survey, April 2009*

Although lack of collateral is a major barrier for all household enterprises seeking to borrow from financial institutions, it would appear to be marginally more significant among urban based HEs than it is for rural based HEs (Table 2.7). On the hand, the barrier of high interest rate appears to be felt equally strongly while the maximum loan size would appear to be more significant among rural based HEs than it is for urban based HEs.

### Table 2.7: Difficulties experienced in raising finance by residence

<table>
<thead>
<tr>
<th>Difficulty experienced</th>
<th>Residence</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rural</td>
<td>Urban</td>
</tr>
<tr>
<td>Raising collateral</td>
<td>30%</td>
<td>38%</td>
</tr>
<tr>
<td>Interest rate too high</td>
<td>28%</td>
<td>28%</td>
</tr>
<tr>
<td>Repayment terms too harsh</td>
<td>13%</td>
<td>10%</td>
</tr>
<tr>
<td>Maximum loan size too small</td>
<td>8%</td>
<td>4%</td>
</tr>
<tr>
<td>Repayment period too short</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>Long/tedious loan process</td>
<td>4%</td>
<td>8%</td>
</tr>
<tr>
<td>Other</td>
<td>11%</td>
<td>7%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

*Source: Field survey, April 2009*

Contrary to expectations, “raising collateral” was a more significant barrier for male entrepreneurs than it was for their female colleagues (Fig 2.7). While the barrier had a 38% share among male entrepreneurs, its share among female entrepreneurs was only 22%. On the other hand, the most significant barrier for female entrepreneurs was “the high rate of interest” with a share of 28% followed by “raising collateral” with a share of 22%.

**b) Effect of the challenge of inadequate capital on HE operations**

As a result of inadequate capital, many HEs continue to operate from a very small capital base and eventually collapse, dashing any hopes of growing their businesses to their full potential. Many HEs resort to other means to supplement their meagre capital, including borrowing from relatives and friends,
while others start additional enterprises that do not need much capital (Sec 2.9, Field Report). In some cases these alternatives take too long to deliver and at times fail to do so.

**Fig. 2.7: Difficulties faced by HEs in accessing credit by Gender of owner**

![Difficulties in raising credit by gender (%)](chart)

(Source: Field study, April 2009)

**(c) Interventions perceived by HEs as necessary to address the challenge of inadequate capital**

Most focus groups covered by the study, believe that low priced loans, with a repayment period of at least 12 months would significantly improve their access to finance. The main purpose for which such finance is needed includes working capital, equipment and term finance. While nearly half of all HEs covered by the study needs working capital finance, one in every three HEs requires equipment and or term finance with some grace period.

2.4.3 Lack of business knowhow

This section presents details regarding the challenge of lack of business knowhow. The challenge which presents as difficulties in finding buyers for HEs’ goods and services as well as a high incidence of bad debts.

**(a) Nature and extent of the challenge of lack of business knowhow**

*a.1. Nature and extent of the challenge of lack of buyers*

Lack of buyers is the second most frequently cited challenge among household enterprises covered by the study. The challenge covers the various problems faced by HEs seeking to sell their goods and services. The most frequently cited problems include: scarcity of buyers, stiff competition for the few buyers available, and low incomes among members of the target community. Due to inexperience and lack of advice, many HEs fail to find buyers because of going into business without adequately planning their entry into the business activity selected. If carried out, planning would reveal the gap available, location of buyers, size and nature of competition in the sector. Most HEs do not engage in this kind of basic study, and simply enter a line of business because it permits easy entry and its capital requirements appear manageable. In the end, they discover when they are already in the market that there are too many sellers competing for the few buyers in the market.
The significance of the problem of lack of buyers varies from sector to sector. While the challenge is the second most significant for HEs operating in the sectors of transport & communications, Hotels & Restaurants and _Other sectors_, as well as the Retail sector and the Services industry, the challenge is among the minor problems in the Manufacturing sector with a share of less than 10% (Table 2.8).

Table 2. 8: Analysis of challenges faced by HEs by sectors of HE activities (share %)

<table>
<thead>
<tr>
<th>Sector</th>
<th>No of HEs (Share)</th>
<th>Capital</th>
<th>Buyers</th>
<th>Debtors</th>
<th>Works</th>
<th>Technology</th>
<th>Electricity</th>
<th>Transport</th>
<th>Skills</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail</td>
<td>42.5</td>
<td>44</td>
<td>13</td>
<td>8</td>
<td>14</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>9</td>
<td>100</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>21.2</td>
<td>38</td>
<td>9</td>
<td>10</td>
<td>12</td>
<td>15</td>
<td>9</td>
<td>2</td>
<td>1</td>
<td>5</td>
<td>100</td>
</tr>
<tr>
<td>Financial &amp; other services</td>
<td>9.4</td>
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<td>M/Vehicle Sales &amp; Repair</td>
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<td>38</td>
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<td>0</td>
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<tr>
<td>Construction</td>
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<td>50</td>
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<td>Wholesale</td>
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<td>25</td>
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<td>0</td>
<td>0</td>
<td>50</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>100</td>
</tr>
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<td>Public admin/ education</td>
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<td>50</td>
<td>0</td>
<td>25</td>
<td>25</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>100</td>
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<td>0</td>
<td>0</td>
<td>50</td>
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<td>0</td>
<td>0</td>
<td>0</td>
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<td>100</td>
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<tr>
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<td>14</td>
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<td>7</td>
<td>2</td>
<td>1</td>
<td>7</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field survey, April 2009.

a.2. Nature and extent of the challenge of bad debts
The problem of bad debts arises out of normal business dealings with customers, who find themselves short of the cash needed to complete their purchase transactions. According to the focus groups covered by the study, the problem appears to be most common with starters, who lack the experience to deal with demands for credit. Customer requests which normally end in bad debts present in different ways and always appear genuine as the experiences narrated by HEs indicate. In most cases, customers simply negotiate for credit and take the goods demanded promising to pay soon and end up taking too long to pay or never coming back. The majority of cases appear to fall in the latter category. The enterprise is left without the goods and without cash. This ends up tying up the HE’s meagre capital in debts that don’t get paid.

The significance of the problem varies from sector to sector. While it is the second most significant problem for the _Hotel & Restaurants_ sector, the problem is minor in the other sectors, ranking 4th in the Retail sector and the Services industry with a share of only 8% and 5% respectively (Table 2.8).

(b) The effect of lack of business knowhow on HE operations

b.1. The effect of lack of buyers on HE operations
According to data from the field, HEs are severely affected by lack of buyers for their goods and services. The effect of this challenge differs across HEs depending on the nature of business. In the case of food vendors and HEs dealing in fresh produce such as fruits and vegetables, lack of buyers results in wastage and direct loss as many do not have proper storage facilities. Some HEs deal in products which though not perishable can easily deteriorate in storage. In the case of enterprises dealing in non-perishable goods, the business is starved of cash due to lack of sales, resulting in failure to meet current liabilities as they fall
due. HEs dealing in services face the same challenge as their colleagues dealing in non-perishable goods, as lack of customers leads to dwindling cash in the business, and eventually failure to meet current liabilities as and when they fall due.

b.2. The effect of bad debts on HE operations
According to HEs affected by this problem, an accumulation of bad debts leads to a tight cash flow situation making it difficult for the enterprise to meet its current liabilities as and when they fall due. Most HEs participating in the survey understood these dangers, and have developed a strict credit policy to minimise the impact of doubtful debts on their operations.

(c) Possible interventions perceived by HEs as necessary to address the challenge of lack of business knowhow

c.1. Interventions perceived by HEs as necessary to address the challenge of lack of buyers
Household enterprises covered by the study believe that the following interventions could support them overcome the challenge of lack of buyers.

   i. Improve access to market information: During discussion, it became apparent that many members of the focus groups covered were not aware of information about the market beyond their immediate neighbourhood. The groups recommended that a mechanism to improve their access to market information would help them improve productivity.

   ii. Access to appropriate training programs: During discussion, many focus groups expressed the need for training to equip them with basic skills to enable them improve performance in customer care and customer satisfaction. Nearly 10% of HEs covered indicated that this training would help them overcome difficulties experienced in selling their goods and services.

   iii. Reduction in taxes: During discussion, it was the view of most members that there are too many taxes and that tax rates are too high, driving the prices of their goods beyond the reach of their clients resulting in a depressed demand for their goods. A discussion about members’ concern regarding “too high and too many taxes” is covered under a separate heading.

c.2. Interventions perceived by HEs as necessary to address the challenge of bad debts
Members of the focus groups covered by the study agreed with the view that the problem of bad debts needed their own attention, and they were unanimous in their resolve to enforce a strict credit policy. The positive attitude exhibited by focus groups discussing this problem would appear to suggest that training would be an effective remedy. Accordingly an appropriate strategy could be developed to build the capacity of HEs to enable them improve the quality of their credit decisions, to minimise the high incidence of doubtful debts especially among food vending HEs.

2.4.4 Access to proper worksites and improved infrastructure
(a). Nature and extent of worksite related constraints and challenges

a.1. Lack of access to worksite including storage facilities
For purposes of this study, the challenge of proper worksites has been broadly used to include difficulties experienced by HEs looking for worksites including proper storage facilities, as well as difficulties arising from electricity supply related problems, and poor road infrastructure related challenges.

According to focus groups covered by the study, lack of a proper worksite is a very common challenge among entrepreneurs seeking to make a start in business. However, after finding a place and commencing business, HEs eventually experience the same challenge when rent is increased for the premises they
occupy and or when their enterprise gets established and needs bigger premises to accommodate expanded operations. Indeed there are many entrepreneurs who did not give lack of premises as their main constraint but gave high cost of rent among others as a concern.

Table 2.9: Main challenges faced by HEs (breakdown)

<table>
<thead>
<tr>
<th>Challenge/ Constraint</th>
<th>Share %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inadequate capital</td>
<td>40.4</td>
</tr>
<tr>
<td>Lack of business knowhow</td>
<td>24.0</td>
</tr>
<tr>
<td>Lack of buyers</td>
<td>14.2</td>
</tr>
<tr>
<td>Bad debts</td>
<td>9.8</td>
</tr>
<tr>
<td>Lack of proper worksites</td>
<td>20.8</td>
</tr>
<tr>
<td>Lack of proper worksites</td>
<td>11.4</td>
</tr>
<tr>
<td>Electricity related problems</td>
<td>7.1</td>
</tr>
<tr>
<td>Infrastructure: bad roads etc</td>
<td>2.3</td>
</tr>
<tr>
<td>Lack of skills</td>
<td>8.0</td>
</tr>
<tr>
<td>Access to technology;</td>
<td>6.8</td>
</tr>
<tr>
<td>Lack of skills &amp; knowledge</td>
<td>1.1</td>
</tr>
<tr>
<td>Other</td>
<td>6.8</td>
</tr>
<tr>
<td>Govt policies, taxation etc</td>
<td>5.9</td>
</tr>
<tr>
<td>Other</td>
<td>0.9</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Field survey, April 2009

With increasing costs in the economy, it is common practice for landlords to increase rent for their buildings periodically. While some enterprises can afford the increased rent and stay on, others find it unaffordable and seek less expensive premises. When rent for their premises increases to levels that are beyond what their enterprise can afford, entrepreneurs begin the search for alternative premises. There are also cases where the success of a household enterprise generates growth that requires larger premises. Initially enterprises in this category try to cope as they look around but eventually make the decision and move. That is when the search for alternative premises becomes urgent and the constraint a high priority. Altogether, 11.4% of all HEs covered by the survey gave lack of access to a proper worksite as the main constraint faced by their enterprise (Table 2.5).

a.2. Infrastructure
For purposes of the survey, the constraint of infrastructure covers HEs that are experiencing electricity supply related problems as well as HEs experiencing difficulties arising from poor road infrastructure. According to data from the field, 7.1% of all HEs surveyed were experiencing electricity related problems, while 2.3% were experiencing poor road infrastructure related difficulties (Tables 2.8 & 2.9). The problem of access, reliability and cost of electricity in Uganda is a critical challenge especially among HEs involved in the services industry as well as the retail and manufacturing sectors (Table 2.8).

While rural based household enterprises are mostly affected by lack of access to electricity, urban based HEs which have access to electricity are most affected by the unreliable nature of the supply and high cost of electricity. The constraint affects enterprises in different ways. For the enterprises lacking access, the constraint translates into lost income and work opportunities, while for HEs faced by unreliable supply,
the constraint translates into the risk of damage to equipment, prolonged machine downtime, and increased idle capacity.

(b). Effect of worksite and infrastructure related challenges on HE operations

b.1. Effect on HE’s operations of worksites related challenges

According to focus groups covered by the study, lack of premises delays the entry of starters into the market while for continuing businesses‘, lack of suitable premises leads to stagnation if the enterprise cannot find alternative premises to accommodate its expanding operations. While it is not the main constraint for continuing HEs, most of them cited it as a secondary constraint. This is because they had found ways of coping with it and for the „time being” it had become a secondary constraint. The most common coping strategy used by HEs failing to access suitable worksites is to settle for the best alternative to the most preferred site – a second choice of sorts. The option as to second or third choice among alternatives is dictated by the nature of business. In many cases HEs relocate to alternative premises after trying in vain to cope with challenges at the existing premises. At times the relocation is temporary pending availability of suitable premises in the commercial centre.

The case of Sam, 27 presented in the box below is an example of this scenario.

Sam, 27, a welder operating from Myanzi experienced difficulties raising start-up capital and had to sell a part of his land to make it. Later, rent for his the site was increased to levels he could not afford, forcing him to relocate to the village where he operates from now.

After failing to obtain proper worksites, some HEs operate from the open field. The case of Kasim captured in the box below is an example of this scenario.

Kassim, 50, is a Cobbler operating from Myanzi, but finding a suitable worksite has been difficult. As a result, he operates from the open field. His other problem is customers who do not collect their shoes on time and yet he does not have proper storage for uncollected items.

b.2. Effect on HE operations of infrastructure related challenges

According to HEs covered by the study, the most direct effect of lack of access to or unreliable electricity power supply, on their operations is lost income and lost employment. In both cases affected HEs resort to manual systems as a coping strategy.

The effect of lack of power supply on HE operations was best articulated by the Katikamu focus group, whose members indicated that due to unstable power supply in their area, their enterprises could not continue in business because of accumulated losses. They also indicated that they do not have any alternative solution for this particular constraint as they find it very expensive to purchase generators. As a result of lost production many HEs end up with severely depressed incomes and at times losses especially enterprises which resort to expensive alternative sources of power.

Experiences of some of the affected HEs are presented below.
i. HEs facing the challenge of lack of electricity power supply
Members of Lorengedwat focus group (Nakapiripirit District) identified lack of electricity power supply as one of the main constraints affecting their performance. Their frustration was articulated by Angelina, a soft drinks vendor in the following words:

-Sometimes customers tell me that they want very cold drinks like water and soda to quench their thirst, but because of lack of electricity I end up losing

Bala sub-county (Apach District) focus group also identified lack of power as one of the biggest challenges they face. According to the group, the situation forces them to invest in costly alternatives such as generators. Unfortunately, the high cost of acquiring and maintaining such facilities places these alternatives beyond the reach of the majority HEs.

Zeu focus group (Nebbi District) identified lack of electricity as the main constraint faced by their enterprises. Most members felt that the absence of electricity was making it difficult for those able and willing to work at night to remain open. They also felt that if they had power, it would help reduce the high incidence of shop break-ins which normally take place at night.

ii. HEs facing the constraint of unreliable power supply
- Based at Nakawa, Kampala, Alex, 28, has been operating a tailoring business since 2003. He was motivated to start the business by the high demand for the service and the low start up capital needed to get going. His main challenge is unreliable power supply. Unfortunately, whenever he switches over to the manual sewing machine or to a charcoal flat iron, his customers complain that the quality of his services is poor.
- Augustine Sserwadda, 37, has been operating a coffee processing plant in Matete, Sembabule since 2004. His motivation to start the business was the absence of competitors in this line of business and the expected good return. The main challenge facing the business is frequent disruptions in power supply and high electricity bills.

(c). Possible interventions perceived by HEs as necessary to address the challenge of lack of access to worksites and infrastructure related problems
Members of Kiboga Town focus group reported that because of lack of proper worksites they are forced to operate from shop verandas exposing themselves to hazards such as the hot sun and erratic rains that have an adverse affect on the quality of their goods. Other HEs were not even welcome to operate from shop verandas because of the nature of their work. Enterprises like carpentry and sigiri making which involve banging metals etc. are shunned by many because of the noise they generate.

They believe that if Government could support them, they would acquire and develop worksites in the area zoned for industrial development in the outskirts of the town. Similar recommendations were made by focus groups from Kawempe in Kampala, Bugambe in Hoima, Bala in Apach, Bobi in Gulu, Koboko, and Lira Municipality.

2.4.5 Access to appropriate technology
(a) Nature and extent of challenge of lack of access to appropriate technology
The constraint of lack of access to technology covers cases of household enterprises that, in response to demand and other market factors would like to upgrade their technology but are unable to do so for one
reason or another, including lack of availability of the desired technology, lack of finance, and uncertainty regarding the viability of the investment. As one of the main barriers to technology upgrade is lack of finance, there is always a tendency for entrepreneurs to report 'lack of access to technology' as lack of access to credit, which in spite of being true will tend to mask the magnitude of the constraint of lack of access to technology. In order to avoid this situation, respondents were asked individually in a structured interview, whether they had any difficulties upgrading the technology used in the enterprise. In response, 67% of all household enterprises participating in the study answered in the affirmative (Fig 2.8). There was neither a rural bias nor an urban bias in the location of this challenge as it hurts both communities equally with the ratio of HEs affected by the constraint in both the rural and urban areas at 67% and 66% respectively.

**Fig 2.8: HEs experiencing difficulties accessing technology**

![](image)

(b) **Effect of lack of access to technology on HE’s operations**

According to focus groups covered by the survey, lack of access to appropriate technology is preventing many HEs from improving the productivity of their enterprises. Following are some of the experiences from affected HEs describing the effects of the problem on their enterprises.

- Tom, running a carpentry workshop in Lira Municipality would like to upgrade to power tools for his workshop, which he believes would increase the capacity of his timber mill significantly. At present he uses local tools to do the same work.

- Based at Najjumba, Mukono, Sauda, 40, has been operating a tailoring business since 1982. She started the business to enable her support her family as well as orphans left behind by departed relatives. There is growing demand for new fashions in Najjumba but she is not able to serve this market because she doesn’t have a designing machine. As a result, ‘I keep losing customers, yet these days customers are seasonal’. 

- Based at Nakawa, Lyazi, 31, has been operating a metal workshop business since 1992. He makes tin boxes for students attending boarding schools. Demand for these products is seasonal and peaks at the beginning of the school term when children are going back to school. There is stiff
competition but the tools he uses are not modern and works extra hard to realise a reasonable turnover. He would improve productivity if he could upgrade the equipment he uses.

(c) **Possible interventions perceived by HEs as necessary to improve access to technology**

According to HEs covered, the main intervention necessary to ease access to appropriate technology is to improve access to affordable credit; skills training; and equipment finance. Apart from credit, the other interventions proposed vary with residence. While there are many rural based HEs proposing support in the form of skills training and equipment finance at 14% and 15% respectively, the ratio of urban based HEs proposing skills training is nearly double the ratio proposing equipment finance at 23% and 13% respectively (Fig 2.9). The difference in preference is probably because urban based HEs are more exposed and appreciate better than their rural colleagues the role of training in technology improvement.

However while it did not feature among the bigger preferences, the other barrier to technology upgrade often mentioned was electricity supply related factors, which include actual coverage especially in rural areas, and where coverage has been achieved; reliability and the high cost of connection and utilisation. A case in point is the Kiboga Town focus group which indicated that while they would like to upgrade the technology used in their enterprises, they are reluctant to do so before the problem of unreliable power supply in their town is rectified. In their view, the most effective way of addressing this challenge is for Government to consider installing a heavy duty standby generator in Kiboga just as it has been doing in other towns elsewhere in the country.

**Fig 2.9: Support perceived by HEs as necessary to improve access to appropriate technology**
2.5. Vulnerabilities faced by non-farm household enterprises

2.5.1. Introduction
This section presents the main risks and vulnerabilities faced by non-farm household enterprises, as reported by HEs during the survey.

The survey found that HEs covered by the study face risks of a varied nature and that most HE owners appear not to be aware of the existence of formal institutional mechanisms specifically designed to help in mitigating the risks that they face. According to data from the field, the five topmost risks faced by 80% of all household enterprises surveyed are: the risk of theft/burglary, business risk arising mainly from losses due to persistent failure to find buyers for the HE’s goods and also losses due to poor or lack of proper storage facilities resulting in spoilage of goods in storage, the risk of road accidents, the risk of equipment failure, and the risk of fire (Fig. 2.10). The other risks faced by the remaining household enterprises include credit risk, power failure, work based accidents, sickness, frauds and forgeries.

![Fig 2.10: Main risks faced by HEs](image)

2.5.2. Theft/burglary
Nature and extent of the risk of theft/burglary
The risk of theft and burglary includes the likelihood that the enterprise will incur losses in the form of physical cash, stocks, tools and equipment to thieves either during a break in, or using any other unauthorised means of access to the HE’s property. According to data from the field, theft/burglary appears to be the most predominant risk to which HEs covered by the study are most vulnerable with two in every five HEs reporting it as the main risk faced.

According to HEs covered by the survey, most of the thefts of enterprise goods and tools take place at night or during rest days when there is no one at the worksite to stop the thieves. Indeed HE owners who manage to keep guard over their workplaces have a higher chance of keeping the thefts to the minimum. At times theft of HEs’ goods takes place during working hours when the owner of the enterprise is attending to a customer and is unable to monitor the movements of other people coming in and out of the premises. While the risk of theft and burglary is widespread, HEs operating from shop verandas appear to be the most vulnerable as they have no access to proper storage facilities for their stocks and tools.
Effect of the risk on HEs’ operations and coping mechanisms employed
When it occurs, the theft of goods, cash, tools or other resources compounds the desperate situation under which the HE operates. The effect of theft on the operations of an enterprise will depend on the nature of the property that is stolen in the attack. At one extreme it can paralyse operations and slow down the growth of an enterprise. In the worst case scenario, theft can destroy the enterprise forcing the owner back to zero. A case in point is one Haruna, a boda-boda rider operating from Kiboga Town, who lost his boda-boda motor cycle to thieves in 2008. He had just acquired the bike on a bank loan which he was still paying at the time of the survey (Apr 09). Without any insurance cover to fall back to, Haruna had no choice but to look for a job in order to earn a living and be able to continue repaying his loan. He was lucky to get a job of boda-boda rider. Not all HE owners who lose their assets to thieves are so lucky.

Possible interventions perceived by HEs as necessary to improve mitigation of the risk
While some of the thefts may be difficult or too expensive to prevent, there are many cases where thefts experienced by HEs do take place because of weak points in HEs’ premises. Some HEs operate from verandas with no proper storage facilities. The main intervention perceived by HEs is improvement by police of security at night in commercial centres.

2.5.3. Business risk
Nature and extent of the risk
The business risk faced by household enterprises surveyed covers the likelihood that a household enterprise will incur losses as a result of: (a) adverse changes in the market including fluctuating prices; (b) deterioration in the condition of goods due to poor or lack of proper storage facilities leading to rotting or expiry; (c) damage of goods in the course of production process and (e) persistent delays or outright failure to get customers.

**Fig 2.11: Main risks faced by HEs, by Gender of HE of owner**

According to data from the field, although the risk of business failure is widespread, the biggest losses are incurred by HEs dealing in perishable goods including fresh fruits and vegetables, meats, fish, and milk which have a short shelf life and tend to spoil rapidly when buyers are not coming or when the number of those who come is too small to consume the stock. This is made worse by the fact that most HEs do not have the capacity to invest in proper storage facilities. Data from the field suggests that women owned HEs are affected by this risk more than their male colleagues, with one in every four women reporting it as the main risk faced while the equivalent figure for men owned HEs is only one in every ten (Fig 2.11).
Effect of the risk on HEs’ operations
When a household enterprise fails to find buyers for its goods, it faces adverse effects of a varying nature. In the case of perishables, such as fresh fruits and vegetables, the goods deteriorate in quality and at times rot. In the case of goods with a shelf life, they soon expire in storage and are no longer fit for the market. In both cases the enterprise is left with no choice but to throw away the goods. In the case of non-perishable and non-expiring goods, failure to get buyers leads to cash flow problems as the enterprise will normally have some fixed costs that cannot wait. In order to minimise the loss arising out of unsold goods that are perishable or can expire in storage, some HEs monitor the movement of their stocks periodically and reduce their price in order to minimise the risk of their goods rotting or expiring in storage.

2.5.4. Accident
Nature and extent of the risk of accident
The risk of road accident covers the likelihood that a household enterprise will incur losses as a result of the owner or his agent being involved in a road accident in the course of transacting the normal business of the enterprise. The risk includes accidents involving vehicles carrying merchandise belonging to a household enterprise, as well as boda-bodas which may be under the control of the owner or his agent when the accident occurs. According to the Zeu focus group (Nebbi District), road accidents are among the main risks faced by HEs in their area. Members indicated that most road accidents involving HEs take place during the process of transporting their merchandise to the market, or to their business premises.

Fig. 2.12: Type of insurance held by household enterprises

Effect of the risk of road accidents on HEs’ operations
In addition to endangering lives of their owners, accidents lead to the damage of the HEs’ goods ranging from minimal to total loss with no recourse to insurance since most (84%) of all HE owners surveyed had no insurance cover over losses arising from road accidents (Fig 2.12). In the case of boda-boda riders, accidents lead to body injury and sick leave which in turn leads to lost days of work. In the rural setting, many trading HEs realise their biggest turnover from market days. As a result many HEs travel long distances often in heavily overloaded trucks that are not always in good mechanical condition. As a result, when an accident takes place, the possibility of heavy losses is high. Apart from most boda-boda riders
who indicated that they have acquired helmets to protect themselves from likely body injury in case of an accident, the other HEs had no effective mitigation strategy against the risk.

**Possible interventions perceived by HEs as necessary to mitigate the risk of road accident**
The consensus among HEs is that government should improve the condition of roads in the country to help reduce the rate of accidents on the roads.

### 2.5.5. Equipment failure

**Nature and extent of the risk of equipment failure**
The risk of equipment failure covers the likelihood that a household enterprise will incur losses as a result of a breakdown of a piece of equipment used in the production process. The cause of the breakdown may vary from poor or lack of maintenance to damages arising out of power supply problems. The risk of equipment failure affects certain economic activities more than the others. For example 82% of all HEs facing this risk came from the sectors of manufacturing (35%), retail (32%) and the services sector (15%).

**Effect of risk on equipment failure on HEs’ operations**
The effect of equipment failure on the operations of HEs tends to vary depending on the nature and magnitude of the problem. In some extreme cases equipment failure may mean total failure requiring replacement of the equipment while in other cases it could mean partial damage that can be restored with replacement of some parts. When the damage is minor, the HE will lose a short period of production as repairs are carried out. However, in cases where the enterprise does not have the funds necessary to restore the equipment back to work, the stoppage can take long. In the case of total damage requiring total replacement of the equipment, the enterprise can go out of production if the HE cannot raise the resources required to finance acquisition of the machine. Some enterprises have put in place arrangements to fall back to whenever the problem occurs. Another strategy used by HEs is to rest the equipment after it has worked for some time in order to minimise the incidence of breakdowns.

### 2.5.6. Fire

**Nature and extent of the risk of fire**
The risk of fire covers the likelihood that a household enterprise will incur losses resulting from an outbreak of fire causing damage or destruction to the HE’s property including premises, stocks and equipment. This risk includes the likelihood of a fire gutting an HE’s workshop, retail shop, salon, and storage facility. Among the HEs citing fire as the main risk faced, more than 80% came from the sectors of Retail (39%), Manufacturing (26%) and the Services sector (19%).

**Effect of the risk of fire on HE operations**
The effect of fire on the operations of an enterprise depends on the extent of the resulting damage and the type of asset(s) destroyed. In the extreme case as in the case of the recent St Balikuddembe Park Market (Owino) fire in Kampala, most HEs suffered total loss of goods and equipment. When the damage is minor, the effect is loss of work days as the enterprise reconstructs or seeks replacement of damaged assets.

Many of the HEs covered by the study take the necessary precautions to minimise the risk of fire by ensuring that all electrical equipment not in use is switched off and that all electrical switches are turned off at the close of business every day. However, while fire insurance is readily available, there were very few HEs (less than 3%) who had taken out fire insurance cover. Most HEs who took out fire insurance, did so as a condition for obtaining a loan from a financial institution.
Chapter 3
Policy, Institutional & Support environment

3.1. Introduction
In Uganda, and indeed in the other countries of Africa, there are policies that either explicitly promote (or restrict) informal income-generating activities, including household enterprises, and there are others that may have unintended consequences for them. These policies arise at the national, as well as at the local levels of government. In addition there are programs and institutions operating at both the national and the local level that support HE operations. During its preparatory stage, the study identified these policies, as well as these programs and institutions from reports and other secondary sources. As part of the field survey, focus groups covered by the study identified specific policies, laws and regulations that promote (or restrict) HE operations. The groups also identified programs and institutions that support HE operations including associations started by HEs themselves.

This chapter presents the policies, laws and regulations as well as programs and institutions affecting the operations of household enterprises as identified. The findings are presented under respective areas of support that they relate to, namely: (a) Financial services delivery (b) Access to proper worksites & infrastructure (c) Inadequate skills & BDS and (d) General support.

The study has found that while some policies, programs and institutions intend or have been mandated to support HEs, in reality, they have either not been effective at the implementation level or their support has not been felt by the target groups. Such policies, programs and institutions have been reviewed and included in the report under annexes 6 to 9.

3.2. Financial services delivery
3.2.1. Policies affecting HEs* access to financial services

Overview
The Government of Uganda is committed to developing a dynamic, sound financial system that is inclusive in providing access to financial services for the poor as well rural based communities.\(^2\) According to the Poverty Eradication Action Plan 2004/5-2007/8, Government also recognizes that while coverage of urban areas by formal financial institutions is relatively sufficient, outreach to rural areas is limited. In September 2005, Cabinet approved a plan for the creation of a rural financial services program aimed at developing financial infrastructure capable of reaching the population in all sub-counties and subsequently all parishes throughout the country so that the rural community can access financial services and ultimately contribute to national wealth accumulation.\(^3\) The main objectives of this plan were inter-alia:

(a) To create and build a nationwide network of rural financial infrastructure to deliver microfinance services and

(b) To assist in the establishment of a viable and properly managed SACCO (Savings and Credit Cooperative) at every sub-county.

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\(^2\) Kashugyera, L., in Regulating and Strengthening Tier 4 Microfinance Institutions in Uganda, Background Studies by AMFIU, 2005.

\(^3\) Suruma, Dr E., in Prosperity for all, a paper delivered to the NRM Caucus on 4\(^{th}\) September 2006
Under its ‘Prosperity for All’ initiative, government also designed a plan to avail whole sale credit to SACCOs for on-lending to their members. Interested SACCOs can now access these funds through the Microfinance Support Centre (MSCL).

3.2.2. Effect of financial policies on the operations of HEs
According to HEs covered by the study, the new programs introduced recently especially the Prosperity for All Program, are not well known. Members of some focus groups who appeared to be aware of the program, were under the impression that the PFA program was meant to support agriculture based enterprises only. In some cases, members who had heard about the program were concerned that the maximum interest rate attached to PFA funds, would make it difficult for their SACCO to make a reasonable return on the money from the program.

Despite a generally sound policy environment conducive to financial deepening, specific programmes to support greater outreach and inclusion of poor rural communities, and a growing variety of financial institutions applying microfinance and other methodologies to reach previously underserved groups, the concerns expressed by the HEs make it clear that gaps persist between financial services available and their accessibility to most HEs. An analysis of some of the reasons why the gap between the demand for and the supply of financial services to HEs is likely to persist has been presented in Annex 10. The analysis clearly shows that it may be unreasonable to expect dramatic rather than gradual improvements in the delivery of financial services to HEs as a result of continued implementation of current policies and programmes.

3.2.3. Institutions supporting HEs’ access to financial services
Overview
Uganda’s financial sector is made up of a variety of institutions including regulated formal financial institutions and a multitude of varied semi-formal institutions. Regulated institutions, which control the bulk of the sector, fall in three tiers namely: Tier 1 covering commercial banks, and Tiers 2 and 3 covering Credit Institutions and Microfinance Deposit Taking Institutions (MDIs) respectively. In addition to regulated institutions, the sector also includes a 4th tier of small and medium sized MFIs, NGOs, SACCOs, FSAs, VSLs and very small CBOs that are not regulated. It is these semi-formal, unregulated financial institutions that cater for the vast majority of HEs. In terms of capacity and outreach, there are 21 commercial banks in Uganda, operating more than 325 branches across the country (as at 30th April 2009), offering a full range of banking services including deposit as well as credit facilities and other financial services. In addition, there are 4 credit institutions, operating more than 25 branches and offering time deposit facilities as well as credit facilities of a widely varying nature. There were four MDIs as at that date operating more than 60 branches across the country.

The category of unregulated institutions was estimated to include more than 100 MFIs and more than 1,500 SACCOs with a total membership of more than 600,000 (Background to Budget, 2009/10). While some MFIs take deposits from their clients, it is only legal for them to do so as part of a loan contract and by law they are not authorised to intermediate such deposits. Apart from the four categories mentioned above, the financial sector also includes two development banks that are governed by specific legislation but are not regulated by the Central bank. A survey of the SACCO sub-sector carried out in 2008, revealed that the concept of SACCOs had been positively embraced countrywide, with a total share capital of UShs.21.5 billion, savings volume of over UShs.54.9 billion and an outstanding loan portfolio of over 65 billion.
Products offered by the sector
The financial sector offers a wide range of financial deposit and credit products as well as numerous derivatives. The sector also offers a wide range of money transfer services including the traditional types such as TTs and recent innovations such as mobile phone based transfers. However most of these products are available to clients of formal financial institutions to the exclusion of the rural communities who live beyond the geographical outreach of these institutions. In addition, while the range of products may appear broad, the design of these products tends not to accommodate some of the peculiar needs of HEs. In particular credit products available tend to be short term leaving HEs’ demand for medium and long term credit needs largely unmet. The closest that seems to be available to them is the leasing product. Unfortunately, in its current state, the leasing product is out of reach for HEs since they are not VAT registered. As a result, they are not able to claim VAT charges levied on lease rentals, which would make the borrowing too expensive to be of any help.

Government acknowledges that while the financial sector is developing rapidly from what it was 10 years ago, the non-bank financial sector is yet to create a significant impact. The sector continues to offer a limited scope of products that are mostly of a short term nature (Background to the Budget, 2009/10). According to focus groups covered by the study, the majority of organisations seeking to support HEs’ operations are involved in the delivery of financial services. However the availability and range of services offered are influenced by location, with urban areas receiving a full range of financial services while rural areas on the other end of the spectrum receive a much smaller range of services and at times remain completely unreached.

The main programs and institutions supporting HEs’ access to financial services, which are listed below have been included in the report under Annex 6.

- Microfinance Support Centre Limited (MSCL)
- Association of Microfinance Institutions of Uganda (AMFIU)
- Uganda Cooperative Savings and Credit Union (UCSCU)
- Uganda Cooperative Alliance (UCA)
- Prosperity for All (PFA)

However, one program, the Rural Financial Services Program (RFSP) which merits special mention because of its unique focus and promise is reviewed below.

3.2.4. Rural Financial Services Programme (RFSP)

Key Objectives
The Rural Financial Services Programme is a seven year programme (2004-2011) restructured in 2006 in accordance with the Government’s new Rural Financial Services Strategy orienting support exclusively towards the SACCOs. The specific aim is to increase poor rural people’s access to financial services by increasing the outreach and sustainability of selected SACCOs. The programme is implemented under the -Prosperity for All|| vision with the following key objectives:
(a) To strengthen the Uganda Cooperative Savings and Credit Union (UCSCU) as the apex organisation to build SACCOs in the country,
(b) To develop an infrastructure of Savings and Credit Cooperative organisations (SACCOs) at the sub-county level across the country as special means for savings mobilisation and provision of credit to the members,
(c) To provide support to supervision and regulation of SACCOs in the country,
(d) To facilitate linkage banking arrangements between commercial banks, MDIs and SACCOs.
Brief description
The Rural Financial Services Programme is a Government initiated programme that was restructured in 2006 in accordance with the Rural Financial Services Strategy developed in 2005 to increase the access of rural communities to financial services. Its mandate is to expand the outreach of financial services, especially to rural communities and to develop an infrastructure of savings and credit cooperative organisations at every sub-county level in Uganda. Its support to eligible SACCOs consists of basic office equipment, and basic capacity building for the staff as well as members and potential members covering entrepreneurship skills, members’ rights and responsibilities, group dynamics, ownership and governance practices. The program works in collaboration with Microfinance Support Centre Limited (MSCL), NAADS, UCA, AMFIU, Post Bank and Ministry of Tourism Trade and Industry.

Although implementation of the program is still in its initial stages, its planned geographical outreach using the sub-county as a target, and its choice of the sub-county SACCO as its main distribution channel could increase its chances for success. However, according to most of the focus groups covered by the survey, the program is little known. Only a few groups seemed to be aware of it and those who did appeared to have little and at times distorted information about it.

The program appears to have great potential to make an impact on the delivery of financial services to HEs. However, the tendency by leaders at all levels in Government to emphasise credit at the expense of saving may compromise this potential.

3.3. Access to proper worksites and infrastructure
3.3.1. Introduction
This section presents policies, and programs seeking to address challenges, constraints and problems faced by household enterprises with regard to access to proper worksites, and necessary infrastructure. In this section infrastructure related challenges include electricity supply related challenges as well as road/rail infrastructure related challenges.

3.3.2. Policies affecting HEs* access to worksites and infrastructure
(I) National Industrial Policy

Key Objectives (most relevant to HE operations)
(a) To create support systems for sustainable micro and small scale industries development.
(b) To promote the participation of disadvantaged sections of society in industrial development.
(c) To promote safe work place practices in all industry sub-sectors.
(d) To create jobs for the widest section of the population.

Expected outcomes
The Policy’s outcomes that are most relevant to the concerns of HEs include the following:
- Support systems for sustainable micro and small scale industries development created;
- Promotion of technology and innovation, vocational education and training services maintained;
- Consumers protected against hazards to health and safety caused by contaminated, defective or dangerous products.

Effect of the policy on HE operations
The proposed intervention seeking to construct common facilities centres for –micro and small scale industries‖, implementation of which has commenced with the Luwafu site in Makindye, could go a long
way to address one of the most serious challenges affecting the operations of household enterprises in Uganda. Access to a proper worksite is a serious factor in the life and performance of a business, which affects household enterprises in different ways. In the case of starters, lack of premises may delay entry into the market while for continuing businesses lack of suitable premises may lead to stagnation when the enterprise cannot find alternative premises to accommodate expanded operations.

(II) Decentralisation Policy Strategic Framework (DPSF)

Key Objectives (most relevant to HE operations):
(a) To strengthen service delivery through promotion of production related activities in order to raise people’s incomes and material well-being;
(b) To provide a basis for defining a mechanism for financing the Local Government sector for development.

The policy has a major focus on Household enterprises. Contrary to traditional practice, the policy does not only focus on HEs as a source of local revenue to part finance decentralized services, but the DPSF provides for action to raise the financial as well as the civic capacity of the community to a level where they are more than able to contribute significantly to local government revenue.

Expected outcomes
Key expected outcomes relevant to HE operations include the following:
- Local economies generating significant taxable resources to support local development;
- A legal framework facilitating the effective and efficient service delivery at the local level.

Constraints affecting the realisation of these outcomes
Notwithstanding the achievements realised by the decentralisation program, a number of challenges have emerged in the implementation of the decentralisation policy, underscored the need for policy, institutional and coordination adjustments. The most significant challenges are in the areas of political, administrative, fiscal and service delivery. Following are a few of the challenges experienced:
- Service delivery efforts are not matched by commensurate wealth creation strategies to enhance household purchasing power and material wellbeing. There is need to redirect the policy so as to address this anomaly in order to transform local governments into agents of local economic development in their localities.
- Physical and urban planning has not been given due attention in local development leading to poor utilisation of space and phenomenal growth of unplanned urban and rural growth settlements. The main causes of this situation include inadequacies in the law and insufficient local government capacity to undertake physical planning.
- Revenue receipts by local governments are too low to finance decentralized services. Local governments find it difficult to generate adequate local revenue to supplement central government transfers due to limited revenue sources, weak collection capacity and political interference that undermines effective revenue mobilisation and collection.

Effect of the policy on HE operations
Household enterprises appreciate the importance of taxation and the services they receive that would not be possible without adequate tax revenue. However HEs have the following concerns:

- Worksites
  Lack of access to worksites, which is one of the most serious challenges faced by HEs is a result of restrictions imposed by the Town and Country Planning Act. As a result of this law, urban authorities are obliged to evict HEs away from town centres. However enforcement of this law has
a devastating effect on the lives of HEs mainly because of the methods used, which result in destruction of goods and tools of the affected HEs.

- **Thefts/ burglars**
  Household enterprises are concerned that not enough is being done by local government especially at the sub-county level, to control burglars who break in their business premises at night and steal their merchandise. They are concerned that while they play their part by paying trading license fees, government is not doing enough to protect their property.

- **Too many taxes, and mistimed tax collection**
  Market vendors are concerned that there is a tendency to force them to pay market-entry fees which is unfair because, in the words of a member of one focus group, –how can you find the money to pay when you have not yet sold your merchandise?||

- **Highhandedness**
  Another area of concern for household enterprises is the highhanded manner adopted by urban authorities in their dealings with traders. They complain that whenever they delay to pay taxes due to circumstances beyond their control, agents of council descend upon them and maliciously confiscate and at times destroy their merchandise. The resources they lose in the process, which at times have taken many years to build, leave them devastated.

- **Lack of uniformity**
  HEs feel that the practice of charging a uniform tax to all people operating in the market is very unfair. They observe that the system does not take into account differences in size thereby creating a big burden for the small enterprises at the base of the pyramid.

- **Double taxation**
  Some HEs are concerned about the practice of double taxation. Ben, a member of one focus group who is a *Muchomo* (meat roasting) vendor pays Shs 200- per day for himself and Shs 200- for the assistant he employs bringing the total to Shs 400- daily. Similarly Norah a female member of the same focus group who is a milk vendor also employs an assistant and is made to pay the same amount for herself as for her employee.

**Possible intervention perceived by HEs as necessary to address unfair taxation practices**
Household enterprises surveyed have observed that the tax burden they bear and the cruel methods used by local authorities to collect the same deprive them of the resources they would have re-invested in their business and in the process it becomes increasingly difficult for them to expand their businesses given their limited capital base. Accordingly HEs have proposed the following intervention to address these problems:

- The number of taxes paid by household enterprises should be reduced;
- Market dues should be phased out since traders are already paying trading license fees;
- Government should ensure that traders get tangible benefits from the taxes they pay in form of security, passable roads, water, electricity and a clean environment;
- Taxation awareness programs should be conducted for stakeholders, before carrying out tax assessments which should be based on size of the business.
(III) National Energy Policy

Key Objectives
The Policy's specific objectives that are most relevant to HEs include the following:
  (a) To increase access to modern affordable and reliable energy services as a contribution to poverty eradication.
  (b) To stimulate economic development.

Expected outcomes
The main outcome from the policy that is relevant to HEs’ operations is the following:
  • Energy playing a central role in the economic development of the country.

Effect of policy on HE operations
While the objectives of the National Energy Policy appear to promote HEs’ operations, the reality on the ground is different. HEs are concerned that their operations are severely restricted due to lack of access, or unreliable electricity power supply leading to lost income and employment.

Institutions and programs supporting HEs’ access to proper worksites and infrastructure have reviewed and included in the report under Annex 7.

3.4. Access to Skills & BDS

3.4.1. Introduction
This section presents policies, institutions and programs seeking to address challenges, constraints and problems faced by household enterprises as a result of inadequate skills and access to BDS. The key challenges covered include: inadequate business knowhow; lack of access to appropriate technology; inadequate business, vocational and technical education services; and lack of access to business development services (BDS).

3.4.2. Policies affecting HEs’ access to Skills and BDS
It would appear that no policy has been developed as yet to address the challenge of HEs’ lack of access to skills and business development services.

3.4.3. Institutions and Programs supporting HEs’ access to Skills and BDS (Business Development Services)
Institutions and Programs supporting HEs’ access to Skills and BDS (Business Development Services) have been reviewed and included in this report under Annex 8. However, two programs, PEVOT and UGT BDS program, merit special mention because of their unique approach and promise.

(a) PEVOT Program

Key Objectives
PEVOT (The programme for the Promotion of Employment-Oriented Vocational Training) seeks to support both public and private initiatives in developing a technical, vocational education and training system (TVET) that will address to a greater extent the needs of the labour market and the trainees. Its overall objective is to increase the employability of trainees who successfully graduate from a labour market oriented vocational training system providing equal access for all.
**Brief description of the program**
The program was started in 2002, in response to a sad paradox defining the Ugandan labour market. On one hand, unemployment was high, and it was increasing each year as more than 400,000 young people emerged from the primary schools. On the other hand, a shortage of skilled labour was holding back the Ugandan economy. Many firms simply could not find the employees they needed to work effectively, and Uganda lacked the means to turn school leavers into productive employees in businesses and industry. PEVOT was established as a contribution towards efforts aimed at addressing this situation. The program unifies and coordinates the activities of several German development agencies in close cooperation with the Ugandan Ministry of Education and Sports (MOES), to help improve the state of vocational education and training throughout the country.

Working at micro, intermediate and macro levels, and collaborating with different stakeholders, PEVOT contributes to the ongoing process of restructuring the Education Sector addressing the lack of relevance, poor funding and inequity of vocational training. Its main areas of contribution include the following:

- PEVOT supports the reform establishing the Uganda Vocational Qualifications Framework (UVQF), intended to bridge the gap between classroom and the real world of work.
- PEVOT assists the Directorate of Industrial Training (DIT) in producing assessment and training packages, which relate to what the labour market really needs.
- PEVOT also assists the Ministry in the operation and implementation of the Education Sector Strategic Plan (ESSP) and in its Community Polytechnics programme (CP) through the implementation of the Local Skills Development project (LSD) in three pilot sites. The LSD is a low-cost training concept, providing increased skills and opportunities for self-employment, particularly in rural areas.
- PEVOT also supports the Ugandan Association of Private Vocational Institutions (UGAPRIVI), which focuses on improving the quality and image of private vocational training providers.

**Expected outcomes**

- Training assessment and standardisation through UVQF and the delivery of non-formal and informal training measures accepted as the answer for broad-based, effective skills training needs;
- The active engagement of the industrial sector in technical and vocational education and training (TVET) being accepted as an important success factor.
- PEVOT accepted as a positive way of ensuring self-employment and income generation for the so-called "forgotten majority" (about 50 percent of those who graduate from primary school in Uganda are unable to attend further schooling for various reasons).

Though not yet evaluated, PEVOT implemented the Local Skills Development project (LSD) in three Sub-county Community Polytechnics (CPs) and according to its sponsors the pilot was successful. However, before it can be considered as a candidate for scaling up, the pilot needs to be evaluated independently and a report produced to guide decision making as to whether it should be adopted.

**(b) Uganda Gatsby Trust BDS Program**

**Key Objectives**
The main objectives of the Gatsby BDS Program which are derived from the objectives of the Uganda Gatsby Trust (UGT) include the following:
• To develop a network of micro and small scale manufacturing enterprises linked to the faculty of technology, Makerere University in order to increase the quality and value of their output. The networks are called Gatsby Enterprise Clubs;
• To assist micro and small scale manufacturing enterprises overcome their problems through extension services and business development services;
• To introduce students of higher education institutions to opportunities and the potential of the micro and small scale enterprises sector and to assist them develop and transfer technologies appropriate to it.

Brief description of the program
Uganda Gatsby Trust is an NGO based at the Faculty of Technology, Makerere University whose mission is to support micro and small scale manufacturing enterprises and value adding businesses that possess the potential to grow. UGT was established in 1994 with seed capital from the Gatsby Charitable Foundation (GCF), UK. The trust deals with enterprises involved in value addition to raw materials including metal fabrication, food processing, textile and garments, wood crafts and carpentry, printing and graphic products, ceramics & building materials, grain milling and leather products. In order to access services form the trust, enterprises are organised in clubs also known as Gatsby Enterprise Club branches. In all there are 25 clubs that are spread across the country covering more than 40 districts.

UGT organises tailor-made training courses for managers and artisans form member clubs, with a view to addressing managerial and technical skill deficiencies. Typical cases include management, entrepreneurship development, business planning, productivity improvement, product costing, credit management, record keeping, fabrication, motor vehicle repair, foundry and black smith operations. UGT assigns staff to interested enterprises to offer extension services to them with a view to:
  • Diagnosing their problems and formulating appropriate solutions;
  • Preparing well-articulated bankable business plans for the enterprise.

Though a valuation report has not been seen by the study, Gatsby's approach of forming small scale manufactures enterprises (SSEs) into clubs that are subsequently used as a vehicle for services delivery is attractive. The model could be evaluated, and on the basis of the evaluation report considered for scaling up.

3.5. General support
3.5.1. Introduction
This section presents policies affecting HE operations in areas other than the ones covered above, and institutions and programs seeking to address challenges, constraints and problems faced by household enterprises arising from areas other than the ones covered under the other sections above.

3.5.2. Other policies affecting HE operations
(I) National Fisheries Policy
Key Objectives
The Policy's key objectives that are most relevant to HEs include the following:
  • To develop an enabling environment that promotes the establishment and growth of community based private enterprises in the fisheries sector.
To ensure that fisheries resources contribute to sustainable rural livelihoods, local government as well as community revenues, and household incomes.

To orient fisheries activity towards commercial rather than subsistence production so as to increase rural incomes.

**Expected outcomes of the policy**
The main outcomes of the policy that are most relevant to HEs include the following:
- Poverty levels among fishing communities reduced significantly;
- Fisheries resources contributing to sustainable rural livelihoods, local government as well as community revenues and household incomes;
- Fisheries activity oriented towards commercial rather than subsistence production so as to increase rural incomes.

**Constraints affecting the realisation of the outcomes:** According to the policy, most of the fishing communities live on land that does not belong to them, thereby precipitating some degree of insecurity of tenure and negatively impacting on the level of community development. The very high rate of illiteracy among the same communities is also a major handicap to their participation in fisheries development activities.

**Effect of the policy on HE operations**
Household enterprises engaged in fishing, fish processing and marketing appreciate the importance of the Fisheries Policy and in particular the support their operations enjoy as a result of its emphasis on protecting young fish from unscrupulous profiteers, whose indiscriminate fishing methods endanger the future of fish stocks in the waters. However, household enterprises have concerns. According to focus groups covered by the survey, Fisheries officials have a tendency of harassing fish mongers for dealing in fish they consider to be too young as a Nakawa market based fish monger explains in the box below.

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Fisheries officials do not go to fishing sites but wait in hiding along the routes used to transport fish to the markets. They demand very high bribes and we have no choice but to pay or else the fish will rot. In the past some people refused to pay, their fish was confiscated for days until it was all rotten. Why don't they go to fishing sites to arrest fishermen who catch young fish? Why do they come to us in the markets?||

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(II) National Forestry Policy

**Key Objectives (most relevant to HEs operations)**
(a) To develop partnerships with rural communities for the sustainable management of forests;
(b) To conserve and manage Uganda's forest biodiversity in support of local and national socio-economic development and in line with international obligations;
(c) To support forest sector development through appropriate education, training and research.

**Extent to which household enterprises are covered by the policy:** The Policy covers household enterprises from several perspectives. In particular, the policy notes that the forest sector creates
significant employment to the tune of an estimated 1.0 million jobs, of which only 100,000 may be in the formal sector, with the rest being in the informal sector, and the vast majority in fuel wood and wood production. The policy also recognises that forests on both private and government lands are a key component of many rural livelihoods, for both subsistence and commerce, noting that where people live near government forests, there is a history of open-access use of these forest reserves, by individual farmers or local residents who depend on these forests for wood and non-wood products.

**Expected outcomes**
- Government working with rural communities for the sustainable management of forests;
- Innovative mechanisms developed and used to deliver forestry extension and advisory services;
- Forest biodiversity conserved in support of local and national socio-economic development;

**Effect of the policy on the operations of household enterprises**
Household entrepreneurs appreciate the need for a policy as well as potent laws and regulations to protect the remaining forests in the country. However, HEs have concerns regarding enforcement.

(a) **Licensing procedures:** HEs working in the timber sector are concerned that the procedures they go through in order to be issued with forestry permits are too tedious and unwarranted.

(b) **Consideration for the local community:** HEs are also concerned that forestry officials do not allow the local communities to benefit from the forests in their neighbourhood.

(c) **Charcoal burning:** HEs engaged in the charcoal burning are concerned that forestry officials prevent them from burning charcoal and yet the population depends on it for cooking. They believe that forestry officials are using the restriction as an excuse to extort bribes from them.

**(III) Traffic Regulations**

**Effect of the regulations on HE operations**
While the Traffic and road safety Act affects regulates the conduct of all road users, its enforcement tends to affect boda-boda riders most severely because many of them use motor cycles that do not meet stipulated traffic and road safety standards. In some cases operators take the risk of riding machines with some defects because they don’t have the funds required to finance necessary repairs. This is why some boda-boda operators abandon their bikes and run away when they are stopped by traffic police because they know they cannot afford to pay the applicable penalty fees. The other category of HEs who are most affected by traffic regulations are traders who operate from village markets and have to travel to different markets on different market days. Their main breach is overloading trucks which transport their merchandise. Whenever they are caught by traffic police, the traders suffer prolonged delays answering officers’ questions resulting in late arrival at the market often when their customers have already left.

**Possible intervention perceived by HEs as necessary to address the challenge**
HEs believe that boda-boda riders as well as other HEs often find themselves on the wrong side of the law out of ignorance. Accordingly focus groups covered by the study have recommended that arrangements should be made to design and run awareness programs to sensitise HEs about policies, laws and regulations that affect their operations.

**3.5.3. Other institutions supporting HE operations**
Other institutions and programs supporting HEs operations in other ways not covered elsewhere have been reviewed and included in this report under Annex 9.
Chapter 4

Issues and Recommendations

4.1. Introduction
This chapter presents the study’s recommendations together with the issues that they seek to address. The chapter is divided into three main sections corresponding to the main issues identified by the study, namely: financial services delivery; access to proper worksites and infrastructure and coordination of HE support initiatives. Coordination, which is presented in section 4.2, covers the issues of lack of coordination of HE support initiatives; inadequate business knowhow; lack of access to skills and business development services; lack of effective organisation among HEs as well as all other issues other than those covered under financial services delivery and access to proper worksites and infrastructure.

4.2. Coordination of HE support initiatives

4.2.1. Issues

Lack of coordination: While the study has identified a number of institutions that are supporting HEs under different types of programs, the initiatives are lacking in coordination both at the national and at the local level. Other initiatives are heavily constrained by lack of resources without which they cannot make any sizable impact on the rapidly increasing numbers of HEs. Failure by HE groups to form apex bodies beyond sector as well as beyond the grassroots level presents another challenge for initiatives trying to support HEs. Although some HEs have tried to form associations to take care of their interests, their efforts have registered modest success at the grassroots level, while at the national level, formation of apex bodies has remained a serious challenge, because, according to focus groups covered by the study, lack of trust prevents them from uniting at a higher level. Indeed the study found that even at the grassroots level, the main challenge to the operations and sustainability of HE groups is poor governance practices. Accordingly, the best hope for organising HEs seems to lie outside their own body, possibly an NGO or a state agency, which would help oversee the process from the grassroots level right up to the national level.

The situation is not helped by the absence of a national policy covering the HE sector and the absence of a national body dedicated to the development of HEs. The most recent studies on this challenge include the MFPED Discussion Paper 15 (2008) and the EPRC Occasional Paper 33 (2007). The EPRC Paper identifies absence of a clear national policy for the informal sector to be a major constraint and observes that efforts by government to promote the private sector may not achieve much before a national policy for the sector is in place. The MFPED Paper observes that the existence of supporting institutions in Uganda has not yielded an effective support system, noting inter-alia that the institutional framework for MSMEs is fragmented with many institutions unable to offer effective service. The paper recommends the creation of an MSME Authority to implement policy and other actions affecting MSMEs.

Possible options for addressing the need for skills and lack of organisation among HEs: One of the initiatives aimed at improving the level of organisation among HEs which has been found by the study to be working well is the formation of Jua Kali clubs by Uganda Gatsby Trust. Formation of the clubs and the strategy of delivering training and other technical services through these clubs is an innovation that subject to satisfactory evaluation should be considered for scaling up.

Another initiative that seems to be working well for HEs is the Sub-county Community Polytechnic (CP) based Local Skills Development (LSD) Pilot Project implemented by PEVOT under the Ministry of
Education and Sports. Subject to satisfactory evaluation of this Community Polytechnic based LSD pilot project, it may be necessary to encourage the private sector to invest in the CPs, if the original target of covering every sub-county is going to be met. As the campaign to attract private sector investors may fall beyond the reach of sub-county authorities it may be necessary to involve national level authorities. The success of the CP model depends on the active involvement of the sub-county authorities to mobilize the community with a view to popularizing vocational and technical training so as to maximise enrolment. In the absence of an autonomous entity focusing on HEs, sub-county authorities may be best placed to lead the effort. While these programs appear good candidates for scaling up, there is no evidence that they have been evaluated. Accordingly, it is recommended that before they are considered for scaling up, both programs should be evaluated, so that any subsequent action may be guided by the results of the evaluation.

4.2.2. Recommendations
As indicated above, the initiatives found by the study to be working well for the sector appear to be uncoordinated, with limited coverage and little or no hope that their success will be replicated across the country. In light of the strategic importance of the HE sector, it would be justified to recommend the creation of an autonomous authority, as proposed by the MFPE Paper, to harmonise initiatives aimed at supporting HEs in their quest to address the challenges, problems, constraints and risks that prevent them from growing to their full potential. However, in view of the significant budget implications, it is likely that implementation of this option may take too long thereby delaying the support that the target community so badly needs. Accordingly, this study recommends that a smaller, simpler interim arrangement be considered. The arrangement would as much as possible aim at utilising the infrastructure and facilities already in place to improve coordination of initiatives seeking to support HEs. Under this arrangement, apart from the need for a national and a district level coordination function, the main centre for mobilization and empowerment of HEs would be the sub-county (Fig. 4.1 below).

The main activities that the sub-county administration would be expected to perform include the following:

(i) **HE groups:** Mobilising and facilitating the formation of HE groups in the sub-county’s commercial centres including RGCs (Rural Growth Centres). The main objective of this activity is to organise HEs into groups that can become vehicles for channelling support that cuts across sectors such as BDS, and the establishment of common facilities.

(ii) **BDS:** Arranging with service providers for the provision of BDS addressing identified needs and carrying out all necessary follow up action.

(iii) **Facilitating access to appropriate technology:** Arranging for visits of service providers coming to carry out needs assessments among HE groups and to give members advice regarding upgrade or outright acquisition of appropriate technology.

(iv) **Worksites/industrial parks:** Assisting HE groups to pool resources with a view to acquire and develop worksites and or business/industrial parks in their commercial centres.

(v) **Community Polytechnics:** Pursuing arrangements to establish community polytechnics in sub-counties where none are in existence and where there is demand for them.

(vi) **Mobilizing the community** to enrol for vocational education and other skills training at sub-county Community Polytechnic or the nearest UGAPRIVI member in the district

(vii) **MIS:** Collecting and disseminating information on a regular basis to HEs and other stakeholders

(viii) **Trade promotion:** Organising local trade fairs and ‘market days’ for the benefit of HEs

(ix) **Contact with service providers:** Facilitating regular interaction between HEs and providers of financial services including insurance services with a view to ensuring that the peculiar needs of
HEs are well understood by service providers so that any products designed for them may have a significant impact on their operations.

One of the challenges likely to affect the proposed arrangement is the local government structure which does not provide for a sub-county commercial officer. The structure expects the District Commercial Officer (DCO) to be solely responsible for the function throughout the district. In view of the schedule of activities that the sub-county is expected to perform under the proposed arrangement, the DCO would be too over-stretched to be effective in this sub-county level activity. Accordingly it is necessary to designate one of the existing offices at the sub-county to take on the responsibility for this function. The National Stakeholders Workshop discussion group which analysed this challenge upheld the study’s recommendation that the Sub-county Community Development Officer (CDO) be designated to handle this function, recommending that –the existing government structure should be maintained and that an enabling reporting/working environment should be created between the DCOs and the CDOs. 

Accordingly, it is recommended that in the absence of a sub-county commercial officer, the role of the Sub-county Community Development Officer (CDO) should be redefined to include the HE function. Under this arrangement therefore, the CDO would become the focal point for the implementation and harmonization of all support intended for HEs.

**Budget implications**

This model relies on the sub-county as the focal point for its implementation. It does not seek to create a new structure but seeks to utilize one of the existing offices in the existing structure to lead the effort. Accordingly the fixed costs such as monthly salaries that come with a new structure are minimised. The district level coordination function would be the responsibility of the District Commercial Officer (DCO) who is already in place and does not give rise to a new expense as the position is already provided for. The national level coordination function would be the responsibility of one of the heads of department designated by the Minister. The national coordination function would among other things attend to requests from CDOs regarding sourcing of national level service providers such as the technical teams that would visit to carry out assessments of HEs’ operations and their needs for technology including upgrades as well as assessments of informal sector workers by DIT (The Directorate of Industrial Training). In addition the NCC (National Coordination Committee) would be expected to lead the effort in popularizing private sector investment in CPs at sub-counties where none are in existence. Since the challenges, problems, constraints and risks faced by HEs cut across sectors, it is proposed that the NCC be created as an inter-ministerial committee responsible for overseeing the performance of the proposed arrangement. Accordingly, the main areas of new expenditure are in the mobilization and training events at the sub-county level and at the district level, the latter solely for equipping CDOs through periodic workshops.

**Implementation**

It is proposed that this model be tested by a small pilot project in a controlled environment in order to establish its effectiveness especially with regard to the competencies vis-à-vis the enhanced level of operations inherent in the new job design, and also to test the appetite of non-farm HEs to embrace the new initiative which ultimately formalizes them through the formation and registration of HE groups. The pilot would include at least one sub-county from each of the country’s four regions. An orientation program would be arranged for all key officials involved from all districts covered by the pilot.

The officials to be covered by the training from each district would include the following:
A diagrammatic impression of the proposed arrangement appears in Fig 4.1 below.

**Fig 4.1: A diagrammatic impression of the HEs Sector Support Program**

A diagrammatic impression of the proposed arrangement appears in Fig 4.1 below.

**Fig 4.1: A diagrammatic impression of the HEs Sector Support Program**

4.3. Delivery of financial services

4.3.1. Background
The financial sector has a number of programs and institutions that are well established and are reasonably spread out throughout the country. However, while these institutions appear to be working, and have reported remarkable performance in terms of client as well as geographical outreach
(Background to the Budget 2009/10), their services are not reaching the HEs sector adequately. According to the study, the need for finance remains unmet with only 10.7% of all non-farm household enterprises covered by the study accessing credit from financial institutions.

In a situation where financial institutions are not making a significant impact among HEs, the SACCO model appears to present a good opportunity for expanding the outreach of financial services to HEs throughout the country. While it may have its weaknesses, the SACCO possesses unique features such as being a user owned, user controlled and user managed legal entity, that make more able than other options to respond to the peculiar needs of HEs more effectively than mainstream financial institutions.

According to the field study, 75% of the barriers to HEs’ access to finance have been found to comprise lack of collateral, high rate of interest, inadequate loan size, inadequate repayment period, and long delays in loan processing. In the SACCO model, the members themselves have a say in product design and can therefore ensure that products accommodate their interests to the best that is practically possible.

4.3.2. Issues
Political issues: As observed above, the SACCO vehicle appears to be a promising vehicle for the delivery of financial services to HEs. However, the effectiveness of this mechanism depends on the existence of an enabling legal/regulatory environment, which falls within the mandate of political leaders, who may be influenced by other pressures.

Institutional issues: According to the views expressed by HEs surveyed, some SACCOs have serious governance issues which if not addressed could undermine the acceptability of the SACCO as a vehicle for effective service delivery. A case in point is the Bugambe Sub-county focus group (Hoima District), where members indicated that they were reluctant to join SACCOs because they do not trust the leadership. Although arrangements designed by UCSCU and UCA for SACCOs affiliated to them, have a capacity building component that should address governance practices, a broader focus involving sub-county level coordination is necessary to increase coverage.

Budgetary issues: If the SACCO model is approved, the strategy to use SACCOs to increase delivery of financial services to HEs will not give rise to any new budgetary issues, other than those already envisaged and either provided for or under consideration by the Rural Financial Services Program, UCSCU, UCA, and MSCL.

4.3.3. Recommendation
In its study of HE challenges, the study sought to establish from focus groups, why access to financial services should remain a challenge when so much has been done by Government and other stakeholders to take services nearer to low income groups across the country. It was found that the problem is no longer that of proximity, but that of features of the products on offer. The difficulties preventing HEs from accessing financial products on offer include collateral requirements; high rate of interest; long loan processes; short repayment period; lack of or short grace period; etc, all of which are determined by individual financial service providers, because the Ugandan market is fully liberalised allowing service providers to determine the pricing of their services on the basis of market conditions.

Accordingly, the most suitable vehicle for HEs would be one that would allow them participation in these policy decisions. In the Ugandan market the best vehicle that would satisfy these specifications is the SACCO model. The vehicle is not without blemish. According to some of the views expressed in focus
groups covered by the study, SACCOS do not have enough funds to loan to their members. Others indicated that they do not trust the leadership of the SACCOS. The question of shortage of loan capital and other issues such as repayment period, and lack of period of grace are easily answered by programs such as MSCL (Microfinance Support Centre Ltd), UCSCU (Uganda Cooperative Savings and Credit Union), and UCA (Uganda Cooperative Alliance) which are already supporting SACCOS to address challenges of this kind. However the issue of lack of trust and poor governance practices among SACCOS in general must be addressed firmly and urgently, if the SACCOS model is going to be effective in playing the role of the ‘preferred vehicle for financial services delivery among HEs’.

This study would recommend that until such a time as the new SACCOS legislation (Tier 4 Institutions Bill) is in place, the Ministries of Tourism, Trade and Industry (MTTI) and Finance, Planning & Economic Development (MOFIED) should put in place measures:

(a) To strengthen and equip adequately the Registrar of Cooperatives with a view to ensuring that there is adequate capacity to enforce existing laws and regulations governing SACCOS, including carrying out a financial audit annually and the strict observance of orderly and timely holding of AGMs and Executive Committee meetings as well as the holding of regular elections of officials in a free and fair environment.

(b) To put in place arrangements necessary to enable SACCOS members attend training that would among others equip them with knowledge about their roles and responsibilities. In order to make it easy for members seeking to attend, such training would be held at the sub-county level, at least once annually, immediately before the AGM.

4.4 Access to proper worksites and infrastructure

4.4.1 Background
The study has identified three institutional mechanisms that appear to be working to ease the access of HEs to proper worksites, namely (a) Urban authorities who in line with their mandate, designate areas for specific types of business activity (b) The Ministry of Tourism, Trade and Industry which has initiated a program for developing industrial parks for Jua Kali enterprises in major urban centres across the country (C) Uganda Gatsby Trust (UGT), which assists Gatsby clubs to develop industrial parks for Jua Kali enterprises’. So far two such parks have been developed one in Njeru for Jinja Gatsby club and the other in Mbarara for Mbarara Gatsby club.

While these mechanisms can be said to be working, the drawback is the practice by all, to focus on manufacturing enterprises only, to the exclusion of the vast majority of non-manufacturing HEs which are equally affected by lack of access to proper worksites.

In addition to satisfactory evaluation results, the Gatsby Jua Kali Industrial Park program offers lessons that should be considered before scaling up:

(a) HEs themselves contributing the funds necessary for acquisition of the land upon which to develop the park and

(b) Financing arrangements that worked (Njeru Park) and financing arrangements that led members to surrender ownership of their park to the state (Mbarara Park).

While Jinja Gatsby Club succeeded in developing and retaining ownership of Njeru Park, financing difficulties forced Mbarara Gatsby Club to surrender the park to the state, after it (the state) rescued them from the hands of creditors. According to the CEO of Uganda Gatsby Trust, Njeru Park has survived because Gatsby used own funds, even when it meant developing the park at a slow pace. –It may have taken us long to develop but we have the land title. In the case of Mbarara Park we wanted to move faster
using external financing. Unfortunately members fell behind in their loan repayments to a level where financiers lost patience.

4.4.2. Issues

Political issues: The success of scaling up the Jua Kali industrial park model to the rural growth centre (RGC)/sub-county level will depend on the attitude of local/urban councils in whose jurisdiction HE groups may fall. It is possible that some local/urban councils may not see the project as a priority or as necessary. If the idea fails to get the buy-in of the councils, or if it experiences delays in getting their approval, plans to designate areas for business/industrial parks, will be held up, leaving the challenge of access to worksite unchanged.

Institutional issues: (a) The success of adapting the Jua Kali industrial park model to the RGC/sub-county level will depend on the buy-in of the sub-county authorities. If it doesn’t happen, the model will not work. In the absence of a central body to oversee the roll out of the model, implementation will be in the hands of the sub-county acting on its own. (b) Taxation practices and enforcement by urban and local authorities, of some provisions of the Town and Country Planning Act, are having a devastating effect on the lives of HEs mainly because of the methods used, which result in destruction of goods and tools of the affected HEs.

Budgetary issues: The success of replicating the Jua Kali industrial park model to the RGC/Sub-county level, gives rise to a number of budgetary issues, including the following:

- Some HEs may fail to contribute the funds necessary for the acquisition of the site allocated for the purpose;
- Urban authorities especially RGCs (rural growth centres) may need to draw new town plans, designating new areas for the purpose;
- Urban areas may not have the resources necessary to develop the area designated with facilities including water and sewerage infrastructure, electricity and roads infrastructure.

4.4.3. Recommendations

The problem of access to worksites is a serious challenge in the life and operations of an HE, which has been ranked 3rd after finance and lack of business knowhow by HEs covered by this study.

This is not the first study to discover and report about this challenge. The WIEGO study (2003) recommended inter-alia, that constraints faced by street vendors should be addressed by all stakeholders with the Government playing a triple role of partner, facilitator and catalyst. The IDRC study (1993) recommended that in order to create space for small businesses, Government should reform land allocation, zoning and building regulations in the urban centres. In spite of these recommendations, the challenge remains among the most frequently cited by HEs and there seems to be no evidence to suggest that the situation is about to change. The study has indentified the Jua Kali industrial park program as an initiative that could work to address this problem with a degree of sustainability subject to modification and adaptation.

This study would recommend that subject to a satisfactory evaluation report, the initiative should be considered for scaling up, after due modification and adaptation. The modification would involve broadening the initiative to cover all non-farm household enterprises and not just those engaged in manufacturing as is the case with Gatsby clubs. In addition the new model would be modified to operate at lower levels up to the RGC (rural growth centre).
The study also recommends that taxation practices and methods used by urban and local authorities against HEs should be reviewed with a view to minimising the incidence of unnecessary destruction of property and livelihoods of HEs.

**Assumptions:** This model assumes that:

(a) HEs are able and willing to be organised into groups that would together contribute the funds to finance acquisition of land for the development of worksites/business/parks for their own use.

(b) HE clubs would be able to arrange the financing necessary to develop the worksites/business parks.

(c) That the local authorities would be able and willing to allocate the land necessary for the development of worksites/business parks for HEs.
## Summary of recommendations

<table>
<thead>
<tr>
<th>Issue</th>
<th>Current status</th>
<th>Recommendation</th>
<th>Responsible</th>
<th>Expected outcomes</th>
<th>Implementation</th>
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<tbody>
<tr>
<td>I: Coordinated HE support activities</td>
<td>While there are a few initiatives working well for the HE sector, their efforts are uncoordinated, with limited coverage and little hope that their success will be replicated across the country.</td>
<td>Improve coordination of support for HEs at all levels across sectors</td>
<td>MTTI</td>
<td>(a) National policy covering HEs developed and enforced</td>
<td>support</td>
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<td>Create a National Coordination Committee (NCC) comprising key stakeholders, including key ministries &amp; public bodies such as PSFU, Enterprise Uganda and UIA, to coordinate HE support activities.</td>
<td>MTTI</td>
<td>(b) HE support activities coordinated by the NCC at the national level and by the COO at the local level.</td>
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<td>Introduce an HE function at the Sub-county under the COO supervised by the COO.</td>
<td>MPS, MOLG, MOLO</td>
<td>(c) HE associations are formed with the support of the COO and are stable resulting in formation of stable apex bodies at the national level</td>
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<td>Review the OCO and COO jobs with a view to providing for the HE function in the structure defining the new working relationship between the two offices.</td>
<td>MOLG, MOLO</td>
<td>(d) Number of HEs and other informal workers equipped with skills increased</td>
<td>PSCP II, GTZ &amp; MOES</td>
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<td></td>
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<td>Facilitate formation of stable HE groups &amp; conduct surveys regularly to establish their needs and the support necessary to satisfy them.</td>
<td>MTTI, MOLO (COO)</td>
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<td>Identify and link HEs to service MOLG providers able to deliver the services.</td>
<td>COO, NCC</td>
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<td>Encourage the development of informal training adequate to the needs of HEs.</td>
<td>MOES (NCC, COO)</td>
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<td>Evaluate the CP LSD piloting project to see whether they raise productivity.</td>
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<td>II: Knowledge &amp; skills</td>
<td>There is no national policy covering HEs in the country, no national body dedicated to the development of HEs in the country, and formation of stable groups continues to elude HEs at the local and at the national levels.</td>
<td>Improve delivery of financial services to HEs using the SACCO as a vehicle for service delivery</td>
<td>MTTI, MFPEO (NCC)</td>
<td>(a) Most HEs accessing financial services through SACCOs</td>
<td>RFSP (Rural Finance Services Program)</td>
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<td>Strengthen existing SACCOs that are genuine to make them attractive to HEs. Where none exist, stimulate and facilitate formation around common business interests.</td>
<td>PSFU, UCSCU (COO, COO)</td>
<td>(b) SACCO members and their executives fully aware of their rights and responsibilities, and performing in their roles to the best of their potential</td>
<td>RFSP</td>
</tr>
<tr>
<td>Issue</td>
<td>Current status</td>
<td>Recommendation</td>
<td>Responsible party</td>
<td>Expected outcomes</td>
<td>Implementation support</td>
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<td>Delivery of financial services cont’d</td>
<td>(b) Many SACCO members are not aware of their rights &amp; responsibilities as well as those of their executives. (c) Many SACCOs do not understand that their key role is the promotion of the saving culture.</td>
<td>(b) Provide regular training at sub-county level for SACCO members &amp; executive covering their rights &amp; responsibilities to enable them check the excesses of their executives. (c) Re-package and spread the message through awareness seminars.</td>
<td>PSU, UCSOU (DDO, CDO)</td>
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<tr>
<td>3 Access to worksites and infrastructure</td>
<td>Lack of a proper worksite and infrastructure is a serious problem for HEs, with one in every five surveyed reporting it as their main challenge. While there are a few initiatives.</td>
<td>Design and implement a program to improve HEs access to worksites and infrastructure using the proposed Luwafu project as a model. Implement &amp; evaluate Luwafu Jua Karl worksite pilot project.</td>
<td>MTTI(NCC)</td>
<td></td>
<td>PSCP IJ</td>
</tr>
<tr>
<td>4 Pilot project</td>
<td>It is recommended that a pilot project be launched to test the new arrangements seeking to improve coordination of HE support and access to worksites Coordination of HE-SBU Initiative. Design &amp; launch a pilot project to test the proposed arrangements seeking to improve coordination of HE support initiatives. Improving HEs' access to worksites.</td>
<td>MTTI(NCC) A clearly defined and tested model adopted for improving coordination of HE support initiatives.</td>
<td>MTTI</td>
<td></td>
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<td></td>
<td>(a) Create a body to manage the Luwafu Pilot Project. (b) Develop an activity plan for the pilot project. (c) Define the end users &amp; the terms governing access to the site. (d) Acquire the land, process title docs., prepare Architectural plan, develop site infrastructure. (e) Construction of site premises (f) Site machinery identification, acquisition, and installation. (g) Commissioning pilot operations. (h) Evaluate the pilot and</td>
<td>Katwe SSA (Sma Scale Industries Association)</td>
<td>Short term</td>
<td>MTTI</td>
<td></td>
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<td></td>
<td>(a) Body to manage HEs' Worksite Access Program (HWAP) created. (b) Premises for Luwafu HEs worksite fully operational. (c) HEs lease &amp; operate from own worksites at Luwafu HEs worksite.</td>
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<td>PSCP IJ</td>
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ANNEX 1

Raising Productivity and Reducing Risks of Household Enterprises

Diagnostic Methodology Framework

World Bank Africa Region Analysis on the Informal Economy
(with the support of the WEIGO network4)

November 4, 2008

Prepared by William F. Steel and Donald Snodgrass for
WIEGO Network and World Bank PREM Network5

4 Women in Informal Employment: Globalizing and Organizing < http://www.wiego.org/ >
5 Drawing on the following background papers: Adams 2008; Dickerson 2008; Dondo 2008; Fox and Gaal 2008.
Heintz and Valodia 2008; Snodgrass 2008.
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<th>Acronym</th>
<th>Full Form</th>
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<tr>
<td>AAP</td>
<td>Africa Action Plan</td>
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<td>BDS</td>
<td>business development services</td>
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<td>CEM</td>
<td>country economic memorandum</td>
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<td>ESW</td>
<td>economic and sector work</td>
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<td>FGDs</td>
<td>focus group discussions</td>
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<td>GDP</td>
<td>gross domestic product</td>
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<td>HD</td>
<td>Human Development</td>
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<td>HEs</td>
<td>household enterprises</td>
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<td>ICA</td>
<td>investment climate assessment</td>
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<td>ICLS</td>
<td>International Conference of Labor Statisticians</td>
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<td>ILO</td>
<td>International Labor Organization</td>
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<td>MFIs</td>
<td>microfinance institutions</td>
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<td>MSEs</td>
<td>micro and small enterprises</td>
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<td>MSMEs</td>
<td>micro, small and medium enterprises</td>
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<tr>
<td>NGOs</td>
<td>non-governmental organizations</td>
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<td>PREM</td>
<td>Poverty Reduction and Economic Management Network</td>
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<td>SACCOs</td>
<td>savings and credit cooperatives</td>
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<td>SMEs</td>
<td>small and medium enterprises</td>
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<td>WIEGO</td>
<td>Women in Informal Employment: Globalizing and Organizing (network)</td>
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World Bank Africa Region Analysis on the Informal Economy
(with the support of the WEIGO network)

Raising Productivity and Reducing Risks of Household Enterprises

Diagnostic Methodology Framework

I. Introduction

Promoting income-generating activities for the poor is one of the priorities for the shared growth pillar of the Africa Action Plan (AAP). Since most of the non-agricultural poor in Africa\(^6\) are engaged in the informal economy,\(^7\) largely through household-based activities, a better understanding of the dynamics, constraints, and potential of informal enterprises and workers is essential for designing policies and interventions that can turn it into an engine of employment and income growth rather than simply a mechanism for coping with vulnerability and sharing poverty. This is no simple task, as the informal economy is heterogeneous and can appear as different from different perspectives as the elephant to the blind men who supposed that the part they perceived characterized the whole. This –Diagnostic Methodology‖ is intended to guide country-specific studies of the informal economy by setting forth: key areas of focus; stylized facts, myths, and key strategic themes based on the literature; important strategic lessons (do’s and don’ts) from experience in African countries regarding economic policies, commercial laws and regulations, skills development, microfinance, and non-financial services to enterprises (based on accompanying background papers); and the types of data and analysis needed at the macro, meso, and micro levels.

One cannot assume that prevailing markets in African countries will work to the benefit of informal activities. Indeed, informal mechanisms often solve problems that arise because of imperfect markets (for labor, capital, inputs, and products). The informal economy must be understood from the bottom up to design programs that will work in a particular country context and will enable markets to work better for the poor. This paper serves as a common framework for country studies to be undertaken as part of a multi-year regional ESW being undertaken by PREM and HD, in consultation with country teams in the selected countries. Application and areas of emphasis will vary by country according to data availability, circumstances and specific issues of local concern, but together these studies (and complementary ones on skills) are expected to help fill gaps in knowledge about informal enterprises and labor.

\(^6\) –Africa‖ is used here to refer primarily to Sub-Saharan Africa.

\(^7\) Agriculture in African countries is also predominantly informal, and may or may not be included in analysis of the informal economy, depending on the purpose and definition. The focus here is on non-agricultural income-earning activities – which farmers may also engage in as a secondary activity. Agriculture (the growing of crops and tending of livestock) is excluded but agribusiness (the selling, bulking, grading, transporting, and processing of agricultural products) is included. The terms –informal economy‖ and –informal enterprises and workers‖ are used to emphasize the heterogeneity and overlapping continuums of degrees of formality by different criteria, whereas the term –informal sector‖ connotes a duality that simplifies but does not correspond to the reality.
This framework paper highlights key stylized facts, lessons of experience and conclusions from a set of background papers (see footnote 2) and other available literature on the informal economy. The main target audience is policymakers in African countries developing poverty reduction strategies. Other key audiences are World Bank country teams and other stakeholders in the development process in Africa active in this subject area. Besides providing further evidence on the issues raised in this methodology paper, the proposed multi-year program aims to provide policymakers with a concrete set of policies and interventions to support the household enterprise sector to become a stronger player in the shared-growth agenda.

**II. Household Enterprises and Pro-Poor Growth**

**C. INTEREST IN THE INFORMAL ECONOMY**

The informal economy is an important vehicle for economic participation by the poor and especially working poor women, in both rural and urban areas – thereby contributing to both growth and poverty reduction agendas.\(^8\) While over 80% of rural Africans list their primary employment as agricultural, household surveys indicate that rural families derive 40% of their earnings from non-farm sources in the informal sector. This is not, however, solely a rural phenomenon: informal employment is growing globally, especially in urban areas. Population growth and rural-urban migration are rapidly urbanizing African countries, but formal job creation has lagged behind expectations, even in countries that have experienced both strong economic growth and rapid poverty reduction.

Even under the best of scenarios, the expansion of wage and salary jobs will not absorb the majority of the urban labor force in the foreseeable future. Thus, the old concept of informal employment as a temporary way-station en route to wage jobs with benefits and social protection simply no longer applies. Pro-poor growth requires directly addressing the informal economy as an important avenue for the broad population to share in the opportunities created by successful growth.

**C. FOCUS ON HOUSEHOLD ENTERPRISES**

The objective of pro-poor growth implies a focus on the intersection of poverty reduction and growth strategies and a search for complementarity rather than trade-offs. Household enterprises (HEs) represent that intersection and potential for complementarity: they reflect the efforts of low-income farmers, rural-urban migrants, and the urban poor to earn more income, and they are also the entry point into participation in private sector-led growth. They are driven by motivations that range from sheer survival to entrepreneurial. A focus on HEs triggers a key question relevant to pro-poor growth strategies: what measures can help poor households to better generate income and cope with vulnerability in a labor surplus situation?

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Measures that work for HEs are likely to work also for the full range of informal workers and micro and small enterprises (MSEs). From the standpoint of household and labor force surveys, HEs consist of own-account workers and unpaid family workers. From the standpoint of enterprise surveys, they are tiny firms consisting of a single entrepreneur, perhaps working with unpaid workers who are likely to be family members9 – although enterprise surveys (including Investment Climate Assessment and Doing Business Reports) more commonly focus on the more formal small and medium-scale enterprises (SMEs) and larger firms. In practice, many people may participate in HEs as a secondary activity, including farmers, civil servants, and schoolchildren. Although this complicates the statistical picture, it means that HEs may be even more important for coping with and exiting poverty than would be suggested by data based only on primary occupations.

Box 1 shows the statistical, enterprise-based definition of the informal sector adopted by the International Conference of Labor Statisticians (ICLS) in 1993. Figure 1 illustrates the broader concept of informal employment, showing different segments of workers in the informal economy roughly in order of average earnings, with informal employers10 (of wage workers and apprentices; predominantly male) at the top and unpaid family workers at the base of the informal –pyramid‖, along with homeworkers and industrial out-workers (predominantly female; often engaged by an agent to perform specific tasks) and casual workers. The relative sizes and earnings of these categories vary by country. Own account operators are approximately in the middle of the pyramid in terms of average earnings and typically consist of both men and women. Household enterprises may draw on unpaid family labor, but they also have the potential to grow, take on wage workers and rise up the pyramid as employers or MSEs.11 Hence, they represent a suitable locus for analyzing policies and interventions that are likely to have positive impacts throughout the informal sector pyramid.

C. PERSPECTIVES AND MODELS

Informal activities can be seen both as a means of coping with constraints in underdeveloped markets and as a way of taking advantage of market opportunities. One viewpoint associates ‖informalization‖ of an economy with stagnation of wage employment (resulting in an increasing share of informal employment) and with restrictive regulatory regimes (inhibiting registration of businesses). On the other hand, even when macro policies are able to reverse stagnation and improve the business environment, rather than disappearing, informal enterprises tend to benefit along with the rest of the economy. Growing global competition is sometimes cited as a reason why the share of informal employment appears to be rising, even in fast-growing Asian countries and many more developed economies. A full understanding how to promote employment and incomes through HEs requires several perspectives.

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9 The term ‖nano enterprises‖ also may be applied to indicate that these are the lowest rung on the ladder of enterprise sizes, with no wage workers.

10 I.e., operators of businesses that are not registered at the national level; or, more broadly, owners of MSEs apart from the self-employed and family businesses. Note that many casual workers and apprentices may be engaged by formal enterprises, but are ‖informal‖ in that they lack secure contracts and benefits.

11 ‖Household enterprise‖ is taken to mean that they are not permanently established as businesses and engage only family members (or, occasionally, an apprentice) – not that they necessarily are located in the house (i.e., they may be street vendors, hawkers, or operate from a small kiosk).
Box 1: 1993 ICLS Definition of the Informal Sector

The Resolution Concerning Statistics of Employment in the Informal Sector, adopted by the Fifteenth International Conference of Labour Statisticians in 1993, defined the informal sector as follows. The informal sector is regarded as a group of household enterprises or unincorporated enterprises owned by households that includes:

- informal own-account enterprises, which may employ contributing family workers and employees on an occasional basis
- enterprises of informal employers, which employ one or more employees on a continuous basis

The enterprise of informal employers must fulfil one or both of the following criteria: size of unit below a specified level of employment, and non-registration of the enterprise or its employees.

This framework proposed by the ICLS Resolution allows countries to adopt the basic operational definition and criteria to their specific circumstances. In particular, flexibility is allowed with respect to the upper limit on the size of employment; the introduction of additional criteria such as non-registration of either the enterprise or its employees; the inclusion or exclusion of professionals or domestic employees; and the inclusion or exclusion of agriculture.


Fig. 1: INFORMAL ECONOMY PYRAMID: AVERAGE EARNINGS AND GENDER SEGMENTATION BY TYPE OF WORK
**Enterprise/Growth Perspective**

Drawing on the definitions cited above, for the purpose of this study, informal enterprises are divided into two main categories:

- Household enterprises (HEs): informal own-account workers and contributing unpaid family workers;
- Micro and small enterprises (MSEs): unincorporated enterprises with one or more paid workers (up to a nationally-specified upper bound).\(^{12}\)

While the focus here is on the HE category, as the entry point for the poor into the private enterprise sector, the relevant model for private-led growth is one of improving productivity and competitiveness in enterprises as a source of growth in profitability, sales, and employment. Implicitly, the enterprise growth model includes both increasing the size of existing enterprises (i.e., moving up the continuum of household, micro, small, medium and large enterprises) and inducing the entry of formal, presumably larger, enterprises that are better able to compete in national, regional, and global markets. The key drivers of this process include:\(^{13}\)

*External to the Enterprise*
- Market demand for the goods and services produced;
- Business enabling environment (policies, regulations, contract enforcement, etc.);
- Infrastructure (availability and cost of energy, water, transport, telecommunications);
- Availability of productive resources (land, labor, buildings, machinery and inputs);
- Accessibility of finance for investment and working capital purposes;
- Market information;
- Accessibility of training and other business development services (BDS)

*Internal to the Enterprise*
- Business and financial management skills;
- Labor skills;
- Choice of technology, capital;
- Efficiency of operating systems, quality control.

The better the markets, resources and information available to the enterprise, the better it will be able to overcome its internal constraints to raise productivity and become more competitive. These factors are as relevant to HES as to MSEs and larger enterprises, though their application and appropriate strategies may differ. For example, from the perspective of the enterprise-based model of development, particular emphasis is often placed on formualization (registration and incorporation) of informal enterprises, based on the presumption that this is a critical step toward accessing resources and markets and minimizing risks associated with informality. While reducing the barriers to and costs of formalization is a legitimate concern of an enterprise

\(^{12}\) In the literature, microenterprises are often defined to include household enterprises. For operational purposes, the upper limit for microenterprises is typically set at 5 or 10 workers, and 20-50 workers for small enterprises, depending on country context and survey objectives. Apprentices and part-time (casual) workers may also be included (in either category).

\(^{13}\) Relevant data can be obtained from *Doing Business*, Investment Climate Assessments, MSME studies, and other enterprise-based surveys.
development strategy, it is not a major preoccupation of this methodology, given that: (i) the focus is on understanding and assisting HEs in their current status; (ii) statistically, the proportion of HEs that rise to become registered small or medium-scale enterprises (SMEs) is extremely small; and (iii) there is little evidence in African countries that registration per se yields significant increases in ability to access finance, BDS, and markets (although it may be a necessary condition, particularly for certain export markets).

**Labor/Vulnerability Perspective**

The 1993 enterprise-based definition omits some categories of home-based and industrial outworkers that have become increasingly important as firms respond to global competition by outsourcing certain tasks to reduce the indirect as well as direct costs of employment. In 2002 WIEGO\(^\text{14}\) and the ILO developed a worker-based definition (endorsed by the ICLS in 2003) of informal employment as being without secure contracts, worker benefits, or social protection, both inside and outside informal enterprises. The -pyramid in Figure 1 incorporates this broader perspective, which includes the earlier definition.

From the labor market perspective, important roles of HEs are to absorb surplus labor and to help households cope with the vulnerability associated with poverty. In the -survivalist model, self-employment is often the only way for the growing number of labor force entrants (as well as rural-urban migrants) to earn a living as labor supply expands faster than formal wage employment. Self-employment also can provide some cash supplement to subsistence or smallholder farmers. In this situation, average incomes in HEs could be declining even as the overall economy is growing, due to saturation in the supply of own-account workers entering the market.

Making growth more beneficial to vulnerable informal workers may involve proactive measures to improve the markets in which they operate, providing social safety nets, or simply avoiding policies that are inimical to their interests. A labor-based model emphasizes the importance of the literacy, numeracy, skill, and information base that make the self-employed better able to operate their businesses effectively and of infrastructural investment (such as roads and market spaces) that lower their costs of doing business and raise their access to customers. Social safety nets can encourage the poor to take business risks that may enable them to rise above low-return survivalist activities. On the policy side, reducing risks of HEs often requires finding ways to get municipal authorities to desist from harassment of informal vendors and harsh measures to clean up or -decongest overcrowded urban centers, or at least to engage in dialogue and seek compromise solutions that don’t destroy the livelihoods of the most vulnerable.

**D. STYLIZED FACTS**

*Size*

The informal economy has been estimated to account for 42% of GDP in Sub-Saharan Africa and 78% of non-agricultural employment, though with considerable variation by country and

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\(^{14}\) Women in Informal Employment: Globalizing and Organizing; a global action-research-policy network of unions, cooperatives, and associations of informal workers and of individual researchers, statisticians, and development professionals engaged in or concerned with informal employment.
definition.\textsuperscript{15} Informal enterprises in most African countries are dominated by HEs, and few HEs or MSEs grow to larger size categories, although a substantial share of (the much smaller number of) medium-sized enterprises may nevertheless have begun as MSEs.\textsuperscript{16}

**Subsectors**

Detailed enterprise surveys done in the 1980s and 1990s indicated that a majority of informal enterprises were in rural areas and engaged in manufacturing (especially textiles and garments, food and beverages, and wood products), although only a third of urban informal enterprises were in manufacturing (Liedholm and Mead 1993). Growing rural-urban migration over the last two decades may have shifted the structure toward urban services, as more recent household surveys tend to show that informal employment is dominated by services, especially retail trade.

**Skills**

Proprietors of HEs are multi-taskers, performing all functions of production, management, marketing, and finances. They are likely to have at best rudimentary education and technical skills and little or no training in financial or enterprise management, leading to low productivity and high vulnerability to both business and household misfortunes – but also offering opportunities for interventions to raise productivity.

**Gender**

Large numbers of informal enterprises are owned and operated by women, who accounted for the majority of informal workers (59-83\%) in surveys conducted in five countries (Chen 2001). Women are particularly likely to be in HEs and concentrated in certain activities, such as retail trade, dressmaking, hairdressing, food processing and preparation, and beer brewing. In many countries, women are disproportionately represented among unpaid family members. Statistics in some countries report many more men as own account workers and many more women as unpaid family workers. In reality, many enterprises are jointly managed and the reporting may reflect gender bias. The \textsuperscript{unpaid\textsuperscript{r} classification can make finding proxies for productivity or earnings difficult, especially since the amount of labor supplied often goes unreported.

**Income levels**

Incomes tend to be lowest for unpaid family workers, home workers, casual labor, and apprentices at the bottom of the informal pyramid – categories in which women often predominate (Fig. 1). Own account workers tend to do somewhat better, but not so well as informal wage workers and employers, who are at the top of pyramid (and who are most likely to be men).

\textsuperscript{15} Schneider 2002; Chen 2001, quoting Charmes 2000. The share of informal sector employment ranges from nearly 20\% in Botswana to over 90\% in Mali, where agricultural employment is included in the national definition (ILO 2002b).

\textsuperscript{16} Liedholm 2002; Liedholm and Mead 1993; Liedholm et al. 1994; McPherson 1994.
E. “Myths” about Informal Enterprises

Informal enterprises are often characterized as unregistered, illegal, not paying taxes, and divorced from the formal enterprise sector. While there is some element of truth in these characterizations, to a large extent they represent caricatures rather than the reality of most informal enterprises in African countries. While some models assume that enterprises choose informality to avoid the costs of dealing with officials and taxes (or because there are few benefits of formalizing), the reality may be that informal entrepreneurs are simply going about their business as best they know how in the local context, without making an explicit decision. This makes it especially important to test these myths or caricatures against the reality in each country.

Unregistered, Illegal

Informal enterprises generally are known to local authorities, who collect taxes or fees (officially or unofficially) from any visible business with fixed premises. Market authorities allocate market stalls (even sidewalk space) and charge for their use. The main exceptions are itinerant street vendors and home-based workers who do not operate a business with a signboard. Hence a large share of informal enterprises may be unregistered in one form or another at a local level (country studies should verify the extent to which this premise holds in each country). They are unlikely, however, to be registered with the relevant national authority (e.g., the Registrar General), which is usually too remote and costly for informal enterprises to bother with and conveys little benefit, since it is the local authorities that are most relevant to them. Those concerned with enterprise formalization usually are referring to incorporation or registration of a business name at the national level, which may be required to open a bank account or connect to utilities.

In many countries, it is perfectly legal to operate a business in one’s own name, and the informal economy is generally defined as consisting of activities that in themselves are legal (apart from the question of the legal status of the enterprise or its location), as distinct from activities that are specifically outlawed.

Don’t Pay Taxes

With decentralization of political authority and responsibilities, many local governments are turning to licensing of small business (or other fees) as a source of revenue. As noted in the preceding section, local authorities are increasingly likely to tax informal business and SMEs—even though private sector development policy at the national level may be to simplify business registration and taxation. Thus, although they may not pay income taxes at the national level, they are likely to make some sort of payments at the local level, and some studies suggest that the smaller the enterprise, the larger a share of its revenues it is likely to pay to local authorities (whether or not these payments end up in public coffers). Again, it is worth testing in national surveys whether HEs remain informal primarily to avoid taxes (as is often alleged), or whether in fact they do pay a relatively high share of their revenues as taxes and fees.

Furthermore, informal enterprises pay indirect value added and sales taxes on their inputs and equipment, which larger, nationally registered firms may be able to avoid or pass on. For example, seamstresses and tailors pay the full consumption taxes on the sewing machines, cloth, and thread that constitute the capital equipment and raw materials for their businesses.
Dualistic Economy
The dual economy model assumes that the formal and informal sectors represent polar opposites with little interconnection. In reality, there is a continuum of different degrees of formality (in terms of different characteristics such as nature of registration, payment of taxes, management structure, contractual arrangements with employees, market orientation, etc.). Furthermore, formal and informal enterprises are often more closely linked than may appear at first. For example, the recent growth of telecommunications companies in most African countries depends heavily on informal vendors of phone cards and calling services; many street hawkers are actually selling goods on behalf of (or obtained on credit from) larger shops; and informal food preparers surrounding factories and other places of employment make cafeterias unnecessary. Country studies should try to identify where such linkages exist and could be enhanced.

III. Conceptual Framework

In order to design policies and programs to improve opportunities and incomes in the lower half of the informal economy pyramid, it is essential to understand the underlying conditions that tend to bias incomes toward the top and, more generally, toward the formal sector. The basic mechanism can be categorized as skewed distribution of:

1. **Productivity-raising investments and services**, including infrastructure, capital, education, training, health, and social services (e.g., child care), which favor formal enterprises and those most likely to work in them;

2. **Constraints and risks, in particular due to limited access to resources and markets**, which tend to affect informal enterprises more adversely than larger, formal ones, in the following areas:
   - Laws, regulations;
   - Imperfect, poorly integrated markets for labor, finance, products, and BDS;
   - Information;
   - Cultural and social norms.

In other words, public policies and investment tend to reinforce both the rate of returns to larger enterprises with a higher level of private investment and constraints to smaller enterprises that already lack market access.

**A. Income Distribution Reflects Investment and Market Constraints**

Figure 2 expands the informal economy pyramid to include formal enterprises at the top. The triangles in the middle illustrate how productivity-raising public investments and services tend to favor the upper end of the enterprise pyramid, while enterprises at the bottom face greater burdens in terms of constraints and difficulty (or high cost of) accessing resources and markets.
The consequence is an inverted income pyramid, with income concentrated in the relatively small number of enterprises and workers at the top. The fact that the large number of enterprises and workers at the bottom contribute a relatively small share of GDP reflects the negative consequences of these biases, not an absence of potential to contribute. Indeed, in this situation, the productive potential of the informal economy is underutilized, and unlocking it will contribute both to economic growth and to enabling the poor to move up.
Fig. 2: BIASES IN SOURCES OF PRODUCTIVITY AND CONSTRAINTS CONCENTRATE INFORMAL EMPLOYMENT AT THE BOTTOM AND INCOMES AT THE TOP

PRODUCTIVITY SOURCES
- Infrastructure, utilities
- Education, training
- Social Services
- Health
- Capital
- Finance
- Culture
- Product markets
- Information
- Labor
- Business services

CONTRAINTS (MARKET & NON-MARKET)

DESIRED RESULT

ENTERPRISES
- Large
- Medium
- Micro & Small
- Household Enterprises

LEVEL PLAYING FIELD

INCOMES

ENTERPRISES

INCOMES (GDP)

CONTRASTS (MARKET & NON-MARKET)
B. **Objectives of Interventions**

In this framework, the primary objective of policy and program interventions for HEs should be to increase their productivity and incomes and reduce their vulnerability by making public investments more favorable and markets more accessible to informal enterprises and workers. This does not require policy biases toward informal enterprises, nor distortion of markets, but rather leveling of the playing field and removal of market barriers. The focus is on adapting policies, investments, services, and markets to informal activities as they actually exist, rather than –formalizing– the informal sector *per se* (though that may be a desirable consequence of more favorable policies). This means addressing:

1. **Public policies and investments:** Increasing the share of productivity-enhancing investments and improving socio-economic services to the informal sector and households, particularly as they affect women's ability to engage in economic activities;

2. **Constraints:** Improving the functioning and integration of markets to be more accessible to informal enterprises and workers and mitigating the risks associated with exclusion from markets (e.g., removing legal and regulatory constraints on women and informal businesses; integrating microfinance into financial sector development; making skills training and BDS more relevant; linking small producers to value chains);

Section IV examines key issues that are broadly relevant to designing a program to achieve these objectives and suggests indicators and options for strategic interventions. Section V presents core indicators and data to be collected for country studies, while Section VI discusses the process of carrying out country studies and developing country strategies.

**IV. Key Areas for Analysis**

Earnings are low and poverty risk high for most of the informally self-employed. Nevertheless, average earnings are frequently higher than in agricultural employment. Productivity improvements are necessary, but may not be sufficient, for sustained improvements in earnings.

The majority of the self-employed in very small, informal, non-agricultural (but not necessarily urban) employment are engaged in service provision. For example, the percentage of people so engaged has been found to be 80% of all HEs in Kenya and 87% in Madagascar. Among the important determinants of productivity in services are market access and demand-side factors. When asked about constraints to improving productivity and earnings, MSEs most commonly cite problems of access to capital and access to markets.

Usable survey data on HEs may be available as enterprise modules in household surveys. When available, such data can be used to estimate earnings functions. Several findings have typically emerged from such estimates:

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17 This section is based on the following draft background papers: Adams 2008; Dickerson 2008; Dondo 2008; Fox and Gaal 2008. Heintz and Valodia 2008; Snodgrass 2008.
• The age/experience of the entrepreneur contributes positively to earnings, but at a decreasing rate.
• Enterprises with more highly educated managers earn more.
• Women face a noticeable penalty, even when other factors are controlled for.
• Unregistered enterprises earn less.
• Earnings increase with capital assets.
• Informal sources of finance may be more important and reliable than commercial bank finance in raising earnings.
• Linkages to specific domestic markets can influence earnings.

Informal enterprises are often treated as a residual category created by the scarcity of formal sector jobs. In reality, informal employment may be a preferred choice and there are many connections between formal and informal activities:
• People move back and forth between informal and formal employment.
• People have multiple occupations.
• Informal enterprises serve as sources of inputs for formal enterprises.
• Informal enterprises are potential markets for formal enterprises.

A key pathway for workers in the informal economy to increase their incomes is through improved integration into the economic mainstream. Forging new linkages between private formal and informal enterprises can help address productivity and market access constraints. Public infrastructural investment also can play an important role, but urban planning has generally not adequately addressed the realities of HEs. Street vendors in particular lack space close to the customer base in the central business district, let alone access to sanitation, water and electricity. Provision of decent workspaces affordable rents with access to services may be more effective in formalizing HEs than efforts to improve business registration.

More broadly, opportunities for the HE sector to absorb labor productively and for individual HEs to grow – and hence their demand for financial and business services, as well as the impact of supply-driven interventions at the micro level – are derived from the aggregate demand for the goods and services of HEs. Therefore, prerequisites for interventions to successfully raise productivity and incomes in HEs include overall demand that is growing faster than the number of own-account workers and a policy environment that enables HEs to access growing market opportunities (see next subsection). While a growing economy supported by stable macroeconomic policies is likely to be conducive to enterprise growth generally, it is not clear to what extent the income elasticity of demand in growing economies favors the goods and services offered by HEs.\footnote{While the manufactured products of cottage industries may not be favored, services such as hairdressing and repair of vehicles and electronic equipment may be, as well as decentralized retail sales of imported goods and phone cards that have relatively high income elasticity. The relationship between overall growth and demand for goods and services of HEs may well vary according to the stage of development. These broader questions relating to macroeconomic policies}

Based on these considerations and preliminary work undertaken, six main areas have been identified for analyzing public policies and investment and constraints in order to develop country-specific
Uganda Country Study: Raising productivity and reducing the risk of household enterprises – Study report and growth lie beyond the scope of the country studies addressed by this framework.
strategies to raise productivity and reduce risk in HEs. While these areas are interrelated, they are discussed separately in detail below in order to arrive at specific indicators and strategic options.  

1. Public Policies and Investment:
   A. Urban development policies
   B. Infrastructural investment and social policies;
   C. Legal framework for HEs.

2. Constraints:
   D. Access to markets;
   E. Access to knowledge and skills;
   F. Access to finance.

A. Urban Development Policies

HEs are perhaps most visible on the streets of Africa's large cities, selling their wares to motorists stuck in congestion resulting from sprawling urban populations that have outstripped the ability of local and national authorities to expand (or even maintain) infrastructure. The policy issues include both a passive failure of municipal authorities to provide adequate space for informal enterprises and an active campaign of municipal officials to 'clean up' the city by seizing or destroying the assets of HEs and driving them from the streets.

Many HEs are hawkers who have locations to which they regularly return to sell their wares, typically a spot close to traffic, where customers are readily available. Governments often seek to herd street vendors to locations outside the central business district because they are perceived to cause congestion – although in reality they are there only because potential customers are stuck in traffic jams resulting from inadequate public transport, roads, and parking to cope with the rapid growth of urban populations and motor vehicles. Not only are these alternative locations unsatisfactory to sellers seeking customers, but the government, viewing these traders as temporary, does not provide decent facilities. Since such campaigns rarely have any lasting impact beyond a few weeks (other than to lower the incomes and assets of the poorest segment of the private enterprise sector), more creative solutions and mechanisms for dialogue to reach compromises are needed at the macro level (see Box 2).

Urban development policies will assume increasing importance as Africa's population and its informal non-farm activities become predominantly urban. Strategies to satisfy both urban street vendors and municipal authorities cut across the issues of public policies, investment and security (section IV.B), legal and regulatory framework (section IV.C), and market access (section IV.D). These include assuring the legal status of HEs, whether by recognizing the right to do business in

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19 Culture and ethnicity may also play an important role in the formation, operation and expansion of HEs. This is a country-specific matter that should be weighed in the country studies but is not addressed directly in this framework.

20 Although often justified by the alleged 'illegality' of these enterprises or their location, the activities (predominantly commerce) in which they are engaged are generally not per se illegal, and the city authorities may have collected taxes or fees from them the day before moving to expel them.

21 See also the 'World Class Cities for All' campaign, which attempts to add a human dimension to the focus on infrastructure inherent in the '—World Class Cities' rating:
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one’s own name or through reforms to simplify the process of registering with local authorities, and realistic approaches to ensuring the security of their business sites. More proactive measures

| Box 2: Exclusion and Inclusion of Street Traders in Durban*’s Public Spaces |
| Warwick Junction is the primary transport intersection in inner eThekweni (Durban), South Africa. The confluence of rail, taxi and bus transport bring an average of 460,000 commuters a day – and some 8,000 street traders, which have grown rapidly since the mid-1990s (street trading had been harshly controlled during the apartheid era). In 1997 the city council launched an area-based urban renewal initiative to address safety, cleanliness, trading and employment opportunities, as well as public transport efficiency.

A particular concern was the several hundred herb traders and traditional doctors who had taken over the sidewalks for lack of booths and stalls, often sleeping on the streets. Rather than trying to remove them, the council encouraged them to organize, articulate their needs, and negotiate. The first significant capital expenditure was about US$500,000 to convert an unused section of nearby highway into a market area with shelter, water and toilet facilities. The traders themselves had to allocate the limited number of spaces – which have increased to accommodate nearly 1000 herb traders – generating an estimated 14,000 jobs gathering and preparing herbs and medicines, with estimated annual turnover of US$24 million.

City officials also worked with street cooks to design appropriate infrastructure for corn and meat barbecues, and established a cardboard buy-back centre so that the more than 500 women who collect cardboard could sell directly to the recycling company rather than through exploitative middlemen.

The collaborative approach drew forth unprecedented levels of volunteerism. To fight crime, a group called Traders Against Crime patrolled the area, resulting in significant reduction in both petty and more serious crime in the area. Sustained interaction with the traders in a participatory manner built on the energy and dynamism that was already there. The project showed how a shift in mindset to regard the informal economy as an economic asset, plus adopting a sector-by-sector approach informed by an understanding of the dynamics of each, can bring success.

Partly drawing on the experience in Warwick, the City developed an Informal Economy Policy, which suggested that Durban’s street trader bylaws be recast to –reflect the overall policy move away from sanction and control, towards support and the creation of new opportunities in a well-managed environment.|| Nevertheless, bureaucratic reorganization in 2001 and departure of some council members involved meant that some aspects of the Informal Economy Policy never were implemented (including the proposed changes in by-laws) and attitudes hardened.

In 2004 the Metro Police, without warning, removed traders’ goods throughout the central business district and neighbouring middle class suburbs as part of a –clean-up operation.|| The Council launched a Public Realm Management Project, employing and equipping 50 new Metro Police officers, which was designed to stop –illegal, unlicensed street trading.|| The Council initially issued only 872 permits, making the vast majority illegal. This was reportedly at the instigation of some formal shop owners – though most describe their relationship with informal traders as –cooperative.|| Indeed, many street traders source their goods from formal businesses. Others note that this campaign followed the announcement that South Africa would host the 2010 World Cup.

In response, street traders and their organizations, as well as the international alliance of street traders organizations or StreetNet, have reinvigorated efforts to organize and lobby officials, as well as initiate legal challenges. Experience shows that the tension in overcrowded streets between traders, transport, officials and commuters is ongoing and can most effectively be addressed through organization, understanding and a commitment to dialogue and problem-solving on all sides.

Adapted from Skinner 2008 and Biles 1999.
to improve income generation and security of HEs would include investment in markets, water supply, health and other social services – although these likely require higher-level commitment beyond the scope of a strategy focused on HEs.

**Indicators**

- Frequency of conflicts and dialogue with street vendors.
- Do urban officials accommodate informal HEs (including street vendors) or take them into account in land use policies and enforcement of business regulations? Do they periodically try to remove HEs, and on what grounds?
- Do municipal authorities enter into dialogue with informal businesses (and do the latter have effective associations) to reduce conflict?

**Key Strategic Interventions**

- Develop urban informal economy policies through a collaborative process involving national and municipal governments, associations of informal businesses, and other private sector and civil society representatives.
- Establish dialogue mechanisms for municipal authorities to work with street vendor and other associations to address problems.
- Strengthen associations representing (or including) informal enterprises.

**B. INFRASTRUCTURAL INVESTMENT AND SOCIAL POLICIES**

Public investment in infrastructure and socio-economic development policies are critical issues for many in informal self-employment, specifically:

- Infrastructure and market facilitation;
- Utilities and economic services;
- Social services;
- Security issues.

Publicly provided infrastructure to serve HEs has traditionally been sparse and of poor quality. Transport infrastructure affects the access of HEs to markets and materials, and the design and availability of urban space (as well as regional marketplaces) determine their access to customers. Lack of access to reliable utilities imposes extra costs on micro businesses that cannot afford back-up energy systems and that have to pay for water and other services in small, relatively expensive amounts. Poor access of households to water and health services in African counties generally imposes a burden women (to gather water and care for sick children and family members) that reduces their time for economic activites.

Given the large number of people engaged in HEs and microenterprises (relative to SMEs), it is important to look first for interventions that can have broad impact. Improvements in transport, infrastructure, and telecommunications systems tend to lower the costs of doing business generally – the question is whether they also enable HEs to reach wider markets, access information, and lower costs. Hence it is important to analyze the extent to which HEs (as distinct from formal firms and even MSMEs) perceive lack of access to or the high cost of these services as binding constraints.
In household enterprises, by definition, the business is at risk for the same vulnerabilities that affect the household. Although the state has an obligation to provide security as a public good, the inability of authorities to cope with the consequences of rapid influx to urban areas, the drug trade, and other potential sources of increasing crime is likely to impinge most heavily on informal businesses. Some markets, faced with governmental inaction, have essentially privatized security. The analysis should (i) highlight (qualitatively, if not quantitatively) the vulnerability of HEs with respect to shocks (e.g., flood, fire, wind, illness or death of family members – which affect cash flow, as well as availability of labor) and security (e.g., theft, crime, harassment) and (ii) inventory what mechanisms (formal and informal) currently operate to mitigate these.

Access to secure premises is often a concern for HEs, especially for those operating out of kiosks, in market areas, or on the streets. Lack of secure premises may also constrain those operating out of the home from moving to a location closer to their customers. Reforms in the legal and regulatory framework may be able to improve the security of HEs and their access to land, premises, and other resources – if such reforms are adapted to the actual situations and needs of HEs. This implies fundamental reforms, perhaps along the lines of those advocated by Hernando de Soto (1989 and 2000), rather than simply making “Doing Business” easier by facilitating licensing or registration at the national level (which may nevertheless be important for larger, expanding SMEs). If such reforms are contemplated, the political will and advocacy base for them must be assessed.

The strategic challenge is to scale up effective mechanisms and introduce additional measures such as health and other insurance and social safety nets. Private investments can both complement this infrastructure (e.g., by providing low-cost vehicles to use upgraded roads) and substitute for its deficiencies (e.g., through the burgeoning spread of mobile phones to replace an inadequate network of landlines, enabling widespread access to information on markets and prices).

**Indicators/Questions:**

**General**
- Comparison of ranking among constraints cited by HEs to those of larger enterprises surveyed in Investment Climate Assessments (see Annex 5), in particular:
  - market infrastructure;
  - reliability of electricity;
  - other municipal and social services (water, trash collection, health);
  - crime, theft, bribes.
- The government budget may be the single most important policy instrument affecting the economic and business environment for informal self-employment. The kind of budget analysis done by Budlender et al. (2004) to determine the impact of the South African budget on informal workers could be used to see whether budgetary priorities take into account workers in informal enterprises. The typical answer may be that they do to some extent, but initiatives are piecemeal and lack coordination. Such an analysis of existing spending patterns could lead to ideas about how to make the budget more pro-poor.
  - What do data on perception of constraints by HEs (or other MSMEs) reveal about their exclusion from and demand for infrastructure, workplaces, energy, and other services affected by public policy and investment?
To what extent do budgets support the above-mentioned types of investments that are accessible to HEs?

What other aspects of budgets are relevant to HEs (or pro-poor)?

*Infrastructure:*
- What types of infrastructure support informal HEs (at home, in markets, on the streets)?
- What types complicate their operations? (E.g., location and design of markets, water, sanitation, roads)
- Transport: Distance from road, public transportation; cost of transport

*Utilities and economic services:*
- % of HEs/households with access to electricity and safe water
- How would HEs use these services if available? (For example, would women have more time to engage in enterprise activities?)

*Social Services:*
- Enrollment rates in health insurance scheme (if any).
- What mechanisms are available to HEs mitigate loss of work time and income due to health and life cycle risks? (Including formal, such as health insurance; semi-formal, such as microinsurance through financial institutions; and informal, such as burial societies.)
- What social services (e.g., maternal and child health services) are accessible to participants in HEs?

*Security:*
- How do HEs’ perceptions of security differ from larger enterprises?
- What is the incidence and types of incidents of insecurity?
- What responses have HEs taken to deal with insecurity?

**Key Strategic Interventions**

- Good transport infrastructure that facilitates domestic movement of goods and services.
- Urban infrastructure (secure market areas with water and sanitation, roadside spaces) that take HEs into account.
- Concessional electricity rates for households and small users.
- Extension of health services and health insurance to poor households.
- Provision of day care for working mothers.

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**C. ** **Legal and Regulatory Framework for Household Enterprises**

African countries have dualistic legal regimes. For foreigners and the elites, there is a version of the transplanted European system. For the poor – and also for the elites when they wish to avail themselves of it – there is a quasi-traditional system. The boundary between the two systems is
imprecise and depends as much on systems of enforcement as on underlying substantive law. The law that is directly relevant to HEs is what passes as traditional law.\footnote{Because of intervening influences, notably colonization, local legal regimes are typically hybrids and not truly traditional.}

Formal laws or traditional customs that prohibit widows from inheriting or that place barriers, such as requiring the widow to pass through ritual cleansing before she can inherit, impede her ability to found and build a business. Hence local laws authorizing women to inherit property and to keep the profits and customs obliging their husbands to contribute to the capital have direct bearing on women’s ability to establish and capitalize their own businesses.

Effective conflict resolution is critical. Except for Cameroon, former French colonies have replaced traditional courts and customary law with a formal regime. In former British colonies, by contrast, the standard system is to make traditional dispute-resolution mechanisms appealable to the formal courts. In some areas, Shari’ah law applies (to secular as well as religious activities). In reality, 80-90% of disputes are settled by informal mechanisms.

Social networks reduce uncertainty by replicating contracts. For example, if microcredit payment is delayed or defaulted, considerable social pressure may be brought to bear, or the defaulter may be banished from the market. Legal structures should support the creation and maintenance of such networks, as well as commercial relationships between HEs and larger enterprises. By helping to offset information asymmetries, networks can improve competition, rather than being anti-competitive as developed country law would regard them.

Administration of taxes and fees often serves as a barrier to entry. Business environment reforms that separate registration from taxation, simplify taxation, and reducing official discretion (and hence uncertainty) can even increase revenues received while lowering costs to individual businesses (see Box 3). For example, market traders can be charged a low flat fee without reference to their sales or profits. Whatever the mechanism, in an effort to introduce some accountability, responsibility for determining and collecting taxes should devolve to local governments in such a way that they take into account the impact on private enterprise of fees, taxes, and licenses imposed to raise revenues. The formation of business groups that can meaningfully discuss issues, including taxation, with local government, can help to prevent arbitrary and despotic use of this power.

Modifying laws to help HEs operate in the commercial realm is much broader than reforming formal commercial law. The role of government includes both its affirmative obligations, such as protecting the human right to health care, and negative ones, such as restraining government agents from assaulting citizens. In the spectrum between these extremes lies the asserted right to a

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\textbf{Box 3: Streamlining Business Licensing in Entebbe}

The main regulatory problem facing household enterprises in Uganda is obtaining a trade license, which Local Councils often use to collect revenue and as a means of enforcing other taxes. It is legal to do business in one’s own name, so the large number of informal household enterprises are not required to register with the national Uganda Business Register (sole proprietorships account for 90% of those that are registered). But failure to have a trade license subjects them to harassment and bribes: a quarter of all enterprises surveyed in

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2004 (and 43% of female-headed businesses) indicated that Government officials had interfered with their businesses. Obtaining a trade licenses is administratively difficult and often costly for informal businesses, and may require prior inspections (e.g., hairdressers must have a health inspection to get a license).

The Uganda Regulatory Best Practices Programme piloted a streamlined business licensing process in Entebbe Municipality in 2002. The streamlining focused on administrative reforms to the existing trade licensing process; it did not attempt to revise the legal aspects of trade licensing or the fees and taxes levied by the local government. The results were profoundly positive for both businesses and the municipality: the time spent by businesses in obtaining their licences was reduced by 90%; compliance costs to businesses were reduced by 75%; revenues to Entebbe increased by 40%; and the effort on the part of local government staff was reduced by 25%. In other words, less effort on the part of the local authority produced far greater returns as well as compliance.

The emphasis was on simplifying the licensing process and separating it from other taxes and administrative matters, as well as improving staff motivation and training and removing opportunities for bribes and leakages. The reforms encouraged many female-owned household enterprises to obtain licenses for the first time. This best practice approach was awarded the Pan-African Investor Award for Smart Regulation by the NEPAD and Commonwealth Business Councils.

decent workplace and a non-abusive judicial regime. An appropriate strategy may be to simplify registration requirements for microenterprises, and put the regulatory burden ex post on authorities rather than on informal enterprises to obtain licenses a priori.

**Indicators**

- Comparison of ranking among constraints cited by HEs to those of larger enterprises surveyed in Investment Climate Assessment (see Annex 5), in particular with respect to the business environment (including legal system, regulations, taxation).
- Legal rights of women to own land, assets and businesses and borrow in their own name.
- Legal/enforcement position of urban hawkers; frequency of official efforts to evict or move them.
- Reported complaints about conflict resolution.

**Key Strategic Interventions**

- Remove legal impediments to women’s participation in economic activities;
- Improve urban law and regulation with due consideration to street traders;
- Separate business registration/licensing from taxation and make procedures simpler and more transparent;
- Promote low-cost methods of conflict resolution.

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23 Many aspects of law do not apply to HEs. Laws regulating employment conditions, including minimum wages, are irrelevant because HEs are typically solo operations or employ only family members. Laws regulating sanitary conditions, to the extent that they are enforced, focus on the interests of customers can be used against HEs (for example, licensing requirements for hairdressers, even though public health risks are minimal).
D. ACCESS TO MARKETS

Domestic markets are overwhelmingly the most important source of demand for the self-employed in HEs. Very few participate in exports. A basic premise of this methodology is that improving the accessibility of markets to HEs (and the poor in general) has the potential to leverage a greater volume of resources than relying on direct, supply-driven interventions. Measures discussed in the preceding three sections (IV.A, B and C) can help improve access of HEs to markets by providing greater (and convenient) urban market space, improving infrastructure to lower transaction costs, and reducing legal and regulatory barriers.

Most HEs sell their goods and services in narrowly bounded and often overcrowded local markets, earning low incomes for their efforts. For example, dozens of sellers may offer nearly identical fruits, vegetables, or plastic products within 100 yards of each other. Moreover, many HEs are located in marginal areas, where purchasing power is low. Factors such as lack of market information, high transportation costs, low production volumes and weak linkages to other value chain actors help sustain this situation. Providing profitable access to wider markets is an important opportunity for improving productivity and incomes. Seizing this opportunity is partly a matter of enterprise performance, partly of the communication and transportation infrastructure available to HEs, and partly of the vertical and horizontal linkages that they are able to forge.

Value Chains and Linkage Mechanisms

Most HEs operate in short value chains. Besides simply buying and selling, many sell services directly to final consumers (e.g., hairdressing, vehicle and shoe repair) or sell goods that they produce themselves on their farms or in their homes or small workshops (e.g., honey, prepared food, furniture). To reach wider markets, they may need to travel or deal with agents and traders who will resell their goods at marked-up prices. Although middlemen have long been stigmatized in popular lore, they provide an economically useful function by helping small producers sell their goods in wider markets.

A diagnosis of market access for HEs involves asking questions about the extent to which they participate in value chains with large and growing markets (especially exports of goods and services) and share in domestic value added. Are HEs linked to any significant export value chains (including services such as tourism)? How are such value chains governed (i.e., who decides what will be produced, specifies product characteristics, sets prices, etc.)? Do HEs add value to domestic value chains by providing or purchasing inputs? How does the level of earnings in HEs linked to value chains compare to those that are not as well integrated and to minimum wage or poverty line?

A basic presumption of this methodology is that the informal and formal economies are often linked – or part of a continuum that is likely to rise or fall together – rather than dualistic opposites. A successful program of support for HEs is likely to include measures that strengthen linkages both horizontally among informal activities and vertically between them and more formal entities.

Horizontal linkage mechanisms include informal networks (family, ethnic), formal associations, cooperatives, and clusters of enterprises. Measures to strengthen such associations (especially by improving governance, strategic planning, and services that members will pay for) are particularly
appropriate to improve their capacity to address their problems systematically and to interact productively with municipal authorities (Box 4). More importantly, horizontal associations can link HEs to value chains that reach more distant markets, such as neighboring countries, Europe and the Middle East. These associations can gain access to information and provide functions such as grading, processing, and marketing in bulk. Such systems have been developed in agribusiness for selling fruits and vegetables in East African countries, for example. These arrangements permit small farmers organized in farmers’ associations to sell their goods to lead firms that export the products, as well as to local processors (e.g., of avocado oil and fruit pulps) and supermarkets.24

**Box 4: Advancing Rights of Informal Economy and Women Workers**

Better integration of informal enterprises and workers into the economic system can be advanced through associations that are included in the labor union movement, and by encouraging companies to adopt equitable standards and practices in dealing with their small suppliers and casual workers.

*Uganda Public Employees Trade Union Includes Informal Economy Workers*

The Uganda Public Employees Union (UPEU) recovered from a low of merely 700 members to reach 17,000 members (1999) by agreeing to start organising workers in the growing informal economy. UPEU re-defined the meaning of "public employees" to mean anybody working to serve the public, including self-employed workers and/or informal sector workers rendering service to the public such as street and market vendors. This was a radical shift from the previously very constrained definition of public employees as civil servants employed by the government. These workers are recruited through their associations, who collect and pay subscriptions to the union at the same flat-rate membership amount per member. There is an Assistant General Secretary in charge of the Informal Sector, who would lead negotiations in the Joint Negotiating Committee (a statutory bargaining forum for all members of UPEU) on matters concerning the informal sector membership, who automatically have the right to be represented in collective bargaining at this forum once they are members of the union.

*Ghana Trade Unions Recruit and Organize Informal Workers*

Similarly, the Ghana Trade Union Congress (GTUC) adopted six policies in 1996 to help the organisation confront challenges of declining membership. Since an estimated 85 per cent of the economically active labour force is in the informal economy, the GTUC policy included a strategy to target these workers for recruitment. This was done in different ways. In some unions, workers were recruited into existing structures, while in others associations of informal workers were affiliated. All unions had to change their own constitutions to make this possible. The following services are provided by the trade unions to the informal economy workers and members:

- negotiate with metropolitan authority on behalf of the informal economy operators in terms of payment of tax and location of their business;
- ensure that informal economy operators apply good health and safety standards, especially operators who may not know the side effects of chemicals that they use;
- provide educational programmes for simple management and bookkeeping skills; and
- organise funding and credit to support informal sector activities.

**Voluntary codes of conduct**

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24 Although the prevalence of supermarkets has grown rapidly in Africa, these larger retail outlets serve only a small urban elite because most people cannot afford the higher prices that they charge. Although supermarkets may eventually crowd out small-scale retailers, as they have in most developed countries, at this stage they probably provide minimal competition to traditional small retailers while enhancing the earnings of small suppliers who can sell to them through appropriate value chains.
Over the past three decades, as corporations have grown both in size and in terms of influence over all aspects of economic and social development, there has been an associated shift of power from governments to large corporations. This growth in the size and influence of corporations is now accompanied by calls for companies to act responsibly. One mechanism through which this is achieved is the implementation and monitoring of voluntary codes of conduct. These are voluntary agreements drawn up at a company, industry or multi-sector level to outline basic social or ethical standards. Labour standards in global supply chains has been one thrust, while many companies have their own code covering issues such as health, safety and child labor.

For example, a Kenyan company that exports cut flowers and employs part-time and temporary women workers has set up a Gender Committee specifically to address the concerns of these workers. Representatives from all areas of the workforce are elected onto the committee where they meet with senior management to raise issues and seek solutions. Among other things, they have instituted training on women’s rights and private counseling sessions on HIV/AIDS, family planning, nutrition, hygiene, and domestic violence.


Vertical linkages can be provided by traders or by agents of lead firms (or other bodies, such as cooperatives) that export the products concerned. Vertical linkages can be facilitated through (−subsector∥) analysis of value chains (e.g., tourism) that specifically includes linkages to informal suppliers and through incentives to subsector associations and buyer-supplier relationships that enhance trust and transactions between different levels. The impact and incentive to form such associations can be enhanced through a macro policy environment of dialogue among all parties, informal and formal, that are affected by policy measures.

In some modern value chains, large-scale private investment can both drive and depend on employment in HEs. Box 5 illustrates how HEs are critical to the successful spread of mobile telecommuniccations in Africa and link major corporations to poverty-reducing informal employment. Another form of linkage is the enterprise cluster, which may involve formal as well as informal firms. For example, a tourism cluster can include hotels, travel agencies, small restaurants, guide services, taxi drivers, handicrafts and other small informal firms.

Box 5: Linking Corporations to HEs: Ghana' s Telcom Value Chain

Africa is experiencing the world's fastest mobile telephony growth: the 116 million customers in 2005 are expected to triple by 2010. Statistical evidence shows that mobile telephone density is correlated with development indicators such as life expectancy and literacy; farmers and fisherman are now able to find the best-price market in which to sell; and growing utilization of cell phones improves the flow of information and remittances to rural areas. The mobile telecommunications value chain offers strong complementarity between large corporations at the top and small, informal retailers at the bottom (with franchised dealers, wholesalers and larger retailers in the middle) – building on models such as Unilever for reaching mass markets via small, affordable units of sale through decentralized retailers.
Small, informal enterprises are an important instrument in the competition between mobile phone companies to reach a vast low-income market. In South Africa, Vodacom has a nationwide network of over 5000 franchised kiosks, which have fostered local entrepreneurship while generating employment. The microenterprise model pioneered by Grameen Phone in Bangladesh and more recently replicated with MTN in Uganda involves partnership between the telcom company and a microfinance institution to enable relatively poor rural women to establish phone calling businesses that generate profits while benefitting their communities.

In Ghana, informal HEs participate through market-driven mechanisms without any direct relationship to the telecom companies. The previous model of business centers with land lines was largely replaced by tabletop mobile phones that made calling easy even for those without phones – which business is now shifting toward the low-value top-up cards and unit transfers for the burgeoning population that own cell phones. Top-up cards can be sold by street vendors who lack the capital to buy a tabletop phone or kiosk.

A recent survey of 60 micro-telcom enterprises (phone services and cards from a table-top or kiosk; 42% of them owner-operated) found that 80% of them do not enjoy any form of discount or commission from their suppliers, and only 7% buy from MTN-franchised dealers. Nevertheless, the average gross profit margin is 16%, slightly better than the 14% which MTN gives its direct distributors. While only 30% of employers provided sales-based incentives, the scope for cheating is limited by the availability of detailed records on transactions.

Average wages substantially exceed the national minimum daily wage and are 43% higher than the poverty line of US$2 per day. Hence the employment generated represents a step out of poverty: 80% of respondents reported that their current income is better than what they earned in previous employment. Thus, these informal operators are successfully accessing a modern, rapidly growing market through their market-driven and mutually beneficial linkages to the large, formal companies.

Source: Adapted from Kottoh 2008.

**Interventions and Subsidies**

Interventions to enhance market access should avoid distorting markets or discouraging private provision of services that HEs could provide or that could potentially serve HEs. Application of this principle demands analysis of how well specific markets are currently functioning, and judgment as to whether proposed interventions or subsidies are more likely to enhance or distort them. Are a substantial proportion of HEs willing and able to purchase needed inputs and services at prices sufficient to cover the costs of providing them? For example, the success of microfinance in serving microenterprises and the poor suggests that controlling or subsidizing interest rates is likely to have adverse effects by limiting their profitability and growth. On the other hand, where demand for BDS is weak and the benefits uncertain (particularly from the perspective of the enterprise), subsidization of well-identified training and other BDS may be justified, if designed in such a way to encourage increased demand for such services and to facilitate the entry of private services providers.

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25 For example: government-directed credit programs at subsidized interest rates tend to undermine the growth of microfinance institutions that can serve the poor on a sustainable basis; government-sponsored development of cooperatives can forestall the bottom-up emergence of cooperatives representing the interests of the poor; subsidized training and business services to HEs by government and donor programs lowers their willingness to pay for such services and hence the interest of private providers of developing such markets on a commercial basis.
Annex 4 provides basic principles for designing subsidies to minimize distortions and promote market-enhancing effects (developed with reference to BDS, but broadly applicable). In general, subsidies directed toward meso-level institutions that facilitate or provide services are more likely to be market-enhancing than subsidies on transactions. These can include market studies, needs assessment, product development, quality assurance, and institutional capacity-building.

Where markets are not functioning well, or are not serving HEs, subsidies to reduce the costs of transactions may be warranted as a means of stimulating demand and supply. To design market-enhancing “smart subsidies” (e.g., through vouchers or matching grant mechanisms), it is important to pay attention to providing incentives for HEs to bear and increasing share of costs and for service providers to develop products that are suited and affordable to HEs.

**Indicators**

- Measures of marketing patterns (e.g., distance sales, sales to and purchases from processors and intermediaries).
- Extent of integration of HEs into growth-oriented value chains.
- Penetration of cellular phones (as indicator of access to market information).
- Membership in horizontal linkage organizations (e.g., associations, cooperatives, clusters).

**Key Strategic Interventions**

- Improved infrastructure, including more public space and services for traders and service providers.
- Improved dissemination of market information.
- Promotion of horizontal linkages (associations and cooperatives) that provide economies of scale.
- Promotion of vertical linkages that promote sales in wider markets.

### E. Access to Knowledge, Skills and Business Development Services

The great majority of participants in HEs have had little formal education or training, either prior to or after entering the labor force. Some, especially woman entrepreneurs, may have had none at all. Levels of literacy and numeracy are likely to be low. The knowledge and skills that they currently use in their businesses (involving how to manage a micro business and how to be an effective worker in such a concern) have mainly been acquired by informal means – through apprenticeships or on-the-job learning from parents and other relatives in family enterprises. This method of skill acquisition typically involves minimal monetary payments, but it often is part of a network of interlocking social obligations.

Measures to improve overall levels of education, literacy, and numeracy are likely to make HEs generally more effective in managing their businesses and household finances and in responding to changing market opportunities. Targeted financial literacy programs (e.g., to women clients of microfinance institutions) may be warranted, although the cost-effectiveness of in-depth
entrepreneurship and management training for HEs is a subject of considerable debate in the literature.

Many formal training programs exist in African countries. Some are conducted by official bodies, including the Ministry of Education and other Ministries (Labor, Industry, Agriculture, Health, etc.) that offer courses in particular areas. These institutions have limited capacity and may be unsustainable without foreign assistance. Private training providers include for-profit firms that offer courses in subjects for which people are willing to pay (e.g., English language and computer science), as well as NGOs. However, HE managers and workers make little use of these formal training services, for reasons that include lack of information on likely benefits, low capacity to pay, and poor fit between what is provided and what informal entrepreneurs want.

Knowledge and training lie at the heart of what are known as business development services (BDS). Numerous attempts have been made over the years in nearly every African country, beginning even before independence, to develop education and training systems that will better equip individuals to work in self-employment or as entrepreneurs and workers in small informal firms. Many government and donor-supported enterprise development programs have benefited particular firms or entrepreneurs through credit, training, technical assistance, and sometimes physical facilities or other forms of assistance. These programs have often suffered from high cost, inappropriate technologies, and, most of all, from unsustainability. These problems led to the emergence of a new paradigm, BDS market development. In this approach, temporary subsidization (e.g., through matching grants or voucher programs) was used to induce MSEs to buy services, in the hope that for-profit suppliers would come forward and users of their services would eventually be willing to pay full price.

Implementation of the BDS market development approach, however, has not proven to be smooth. Perhaps believing that nascent providers of training and other business services would fail if subsidies were withdrawn, many donors have continued to subsidize business services. BDS market development projects do not always build exit strategies for ending subsidies into their project designs. Moreover, despite efforts to minimize market distortions, free or subsidized provision of services by governments, other donors, and NGOs sometimes undercuts attempts to develop a commercial business service market. Local employees of NGOs were often reluctant to give up steady, salaried jobs for the riskier alternative of going into business on their own.

Especially for HEs, paying for training and other services poses a problem. Very small firms with thin cash flows lack the liquidity to make cash payments for services received. The demand for business services is a derived demand, so the ability to pay depends on the earnings enterprises can obtain for their goods and services. Opportunities to develop markets for business training and other services may thus be closely related to the development of end markets for the goods and services produced by HEs.

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26 According to the “Blue Book” of the Committee of Donor Agencies for Small Enterprise Development (2001), business development services include training, consultancy, and advisory services, marketing assistance, information, technology development and transfer and business linkage promotion. See Annex 4 for principles for market-enhancing application of subsidies excerpted from that document.

27 One could argue that some degree of continuing subsidy can be justified by the externalities of training. Even large firms under-invest in training because the trained workers could leave their employment and even go into competition with them.
While some donors have continued to implement BDS market development programs, others have switched to emphasizing inter-firm linkages though value chains and clusters, realizing that many business services, especially those used by very small firms, are not supplied in freestanding markets but instead are embedded either in the marketing and processing functions of intermediaries above the level of the primary producer or in the inputs and services provided to producers. Business service provision is thus linked to commodity transactions, such as the purchase of goods for sale in distant markets or the supply of material inputs. By working at the higher levels of the value chain, projects with this design attempt to deal with the problem of end-market demand in conjunction with the business services problem. (See Box 6 for examples.)

**Box 6: Business Services and Linkages to Support Informal Enterprises**

*UNIDO’s Women Entrepreneurship Development Programs*

The United Nations Industrial Development Organization (UNIDO) has been providing assistance to promote the growth of small and enterprises, particularly those operated by women, through the Women Entrepreneurship Development (WED) programs. The program works with existing local organizations to improve the technological and managerial capacities of the enterprise as well as assist the organization with its financial strategy. WED projects include:

- **Women Entrepreneurs for Industrial Growth, Kenya:** WED's assistance with technical and managerial training helps project members improve access to credit; access global trade markets; increase wages; purchase assets, such as sewing machines; broaden the range and improve quality of product lines and services; and improve cash-management.

- **Women Olive Oil Entrepreneurs, Morocco:** WED introduced appropriate technology for a less labour-intensive oil creation process, which also yielded a safer product. Additionally, entrepreneurs were offered managerial and marketing training, to better aid these women in accessing global markets.

- **Fisheries Industry of Lake Victoria, Tanzania, Uganda and Kenya:** WED help the fishing industry of Lake Victoria to improve fish processing safety and hygiene in order to have the EU ban on these fish lifted. WED assisted factories and workers to to improve inspection systems and aid in the accreditation of laboratories. Additionally, WED also worked with industry representatives to identify and pursue new markets.

*Social entrepreneur links rural beekeepers with export markets, Kenya*

Honey Care Africa, set up by a social entrepreneur about four years ago in Kenya, has enabled almost 12,000 rural beekeepers to improve their incomes by linking them with markets in Europe with the help of funds from almost 20 donors. Its tripartite model involves a private sector company (Honey Care), a development organisation and the rural communities. Honey Care guarantees to purchase every kilogram of honey a beekeeper can produce at a fair and fixed price and to pay in cash on the day of collection. It then processes and packs this honey to sell at a profit to export markets. It also provides the necessary training for the rural communities and, where economically viable, it provides extension support.

*Women’s cashew business creates market linkages for informal women producers, Senegal*

A Dakar-based company owned by two women from Benin holds the single largest market for processed cashew nuts. The first company to formally commercialise cashew kernels in Senegal, it has been buying all its kernels from women’s associations based in the Kaolack and Farick regions for over 10 years. They distribute an elegantly packaged brand of artisanally-processed nuts in a chain of petrol stations in Dakar and other major urban centres.

*NGO helps to link local producers with supermarkets, international markets*

NGOs are also active in linking local producers with global markets. Technoserve, an international NGO, has been experimenting with ways to enable local producers to benefit from the rapid spread of supermarkets in...
the global South. In South Africa, supermarkets have grown to 55 per cent of the total food retail sector; in Kenya, between 20 and 30 per cent; and similar growth is expected in other African countries such as Ghana, Mozambique, Tanzania and Uganda. NGOs can help informal producers with the quality, packaging and marketing needed to reach the growing urban middle class that can now afford to buy packaged foods, brand names and gourmet items.

For rural entrepreneurs in developing countries to sell their products to the growing middle class using urban supermarkets, Technoserve assists them to (a) understand how supermarkets procure products and (b) use post harvest methods that meet the needs of the companies they want to sell. This includes packaging, labelling – even bar-coding and refrigerated delivery. It also means that most entrepreneurs will need investment capital to make this giant leap forward. In Ghana, in 2002, Technoserve trained 322 small-scale pineapple and citrus fruit farmers in organic production, helped them to become organically certified and then established a commercial link to Athena Foods, a local juice processing plant, which provides organic juice to a supermarket client in the Netherlands. All over Africa, it is hoped that the development of supermarkets may provide a stepping stone to supermarkets in the US and Europe for other producers and entrepreneurs who succeed at becoming part of the farm-to-consumer chain in their own countries.

**Women fishworkers union uses ICTs as marketing tool, Senegal**

Many women entrepreneurs who are traders, ranging from micro-trading in foodstuffs to large-scale import-export trade, are beginning to use information and communication technology (ICT) to access market information. In Senegal, the Grand Coast Fishing Operators Union, an organisation of women who market fish and fish producers, uses ICTs to exchange information on supply and demand between their different locations along the Atlantic coast. The women feel that this tool has improved their competitiveness in the local market. They are planning a website to enable their nearly 7,500 members to promote their produce, monitor export markets and negotiate prices with overseas buyers before they arrive in Senegal.


Other constraints that come into play when efforts are made to provide training to HEs include the limited educational backgrounds of the trainees, the different skill needs of HEs (which are multi-taskers), and the high cost of providing training to many small units. Quality assurance also is difficult for programs to provide BDS to HEs, since it is costly and difficult to set up systematic certification mechanisms. The first step in assessing the situation for BDS would be to examine the consistency of donor and government programs in terms of whether their basic orientation is toward highly subsidized provision of services or a market-oriented approach. Then the strategy could suggest: (i) basic principles (e.g., increased cost-sharing and movement toward a more market-based system); (ii) mechanisms for better coordination and sharing of information among them on the quality and performance of service providers; and (iii) ways to establish common selection criteria, standardization of training material, and upgrading of service providers. The underlying principle is to make interventions more cost-effective by leveraging additional resources through better-functioning markets.

For further details, diagnostic methodology, indicators and interventions relating to skills development and acquisition, see the complementary -Framework for the Study of Skills Development in the Informal Sector of Sub-Saharan Africa|| by Arvil Van Adams. With respect to

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28 The low educational attainments of most HE managers and workers influences the type of training that can benefit them. On the other hand, the average educational attainments of this group may be rising as school leavers enter the
Uganda Country Study: Raising productivity and reducing the risk of household enterprises – Study report informal work force.
BDS, matching grant or voucher programs are increasingly common interventions to promote development of the market for BDS among SMEs – but these are less likely to suit HEs. Where HEs are linked to value chains, there may be scope to promote improved skills and productivity through embedded services to HEs from larger firms that supply or buy from them. The relevant indicators from enterprise surveys are the use of purchased or embedded BDS by HEs and their willingness (demonstrated or stated) to pay for training and other BDS.

**Indicators**

- Literacy, educational attainments and training experiences of HE managers and workers (by gender).
- Prevalence of apprenticeship arrangements.
- Willingness (demonstrated or stated) of HEs to pay for training and other business development services.
- Acquisition of knowledge and skills through commodity transactions (sales and input purchases).

**Key Strategic Interventions**

- Strengthen apprenticeship programs.
- Consider voucher or matching grant programs to encourage purchases of training and other services (but unlikely to benefit HEs very much).
- Promote value chain development with embedded services.

**F. ACCESS TO FINANCE**

The most common constraint cited by HEs (and SMEs generally) is typically –finance. This does not mean, however, that credit is necessarily the solution, for three main reasons: (i) the underlying problem is often poor cash flow rather than an unseized business opportunity; (ii) HEs typically lack the track records, financial accounts, management capabilities, and market prospects (let alone the collateral) needed to make them –creditworthy; and (iii) savings (personal, family, friends) are overwhelmingly the main source of funding for HEs, especially for start-up, so a large increase in credit availability would have only narrow impact, at least in the short run. Microfinance can help to overcome these constraints to some extent by helping HEs to leverage small savings plus –social capital from guarantors into increased access to credit, but it is not a panacea. Relevant issues to investigate at the country level include the ability of HEs to use additional funds productively in the markets in which they operate; current sources of funding that can most effectively be increased; and actual uses of microcredit for business vs. consumption and other household expenses.

The primary source of finance for HEs is the savings of the entrepreneur and sometimes his or her relatives and friends. HEs and their related households also use savings and credit to smooth income flows and to cover exceptional or unexpected expenditures (illness, weddings, funerals), as well as for enterprise working capital and investments. However, HEs generally cannot access formal financial markets. A fixed address is a prerequisite to a opening an account, and collateral is required to borrow from banks. These barriers force HEs to rely on informal financial mechanisms,
such as *tontines* and other types of rotating or accumulating savings and credit associations (which have limited funds) or moneylenders (with extremely high interest charges).

Institutional innovations such as savings cooperatives can help to expand financing through member-based networks, and microfinance on a commercial basis is increasingly available to the entrepreneurial poor, often focused on women’s participation through group methodologies of NGOs. To make capital more readily available to HEs, laws and regulations should permit character- and cash-flow-based microfinance methodologies in member-based cooperatives and NGOs with credit funds and enable them to become licensed financial institutions if they meet basic capital and liquidity requirements.

The high cost of servicing small loans makes HEs unattractive to most commercial financial institutions. Yet a microfinance revolution has swept the globe in the past 25 years, based on the discovery that sustainable lending to the poor is possible when interest rates are high enough to cover the lender’s costs and methodologies such as group lending and short-term repeat loans are used to manage costs and risks and maintain high repayment rates. This formula has become sufficiently profitable to attract commercial investment to the microfinance industry, including in African countries such as Ghana, Nigeria and Uganda.

Africa, however, has been slower to join the microfinance revolution than Asia or Latin America. So far, sustainable institutions have been established in only a few countries. Africa may be a less congenial setting for commercial microfinance than Asia, in part because of lower population density and in some cases due to policies or laws that restrict interest rates. Nevertheless, a growing number of countries in Africa are developing legal/regulatory regimes that facilitate the entry (or transformation of existing) MFIs on a commercially sustainable basis – licensed to mobilize savings as an important source of capital for growth. These range from Ethiopia, whose relatively restrictive microfinance legislation has yielded some of the largest MFIs in Africa (with strong government backing), to Ghana, which has various legal forms of financial institutions (such as rural and community banks, savings and loan companies, and credit unions) as well as institutionalized informal savings collectors, all serving different market niches with different products and methodologies (see Box 7). Other countries, such as Uganda, Kenya, and Nigeria, have adopted specialized legislation for MFIs that has encouraged private investment to expand the sector. Nevertheless, restrictive legislation that brings microfinance under interest rate ceilings can limit the success and growth of MFIs, as in the West African Monetary Union.

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**Box 7: Building Outreach in Ghana’s Tiered Financial System**

Ghana’s multi-tiered regulatory structure has evolved from efforts in the 1970s to extend the outreach of the formal financial system via locally-owned unit Rural Banks, in particular to service the cocoa sector, through the 1993 Non-Bank Financial Institutions Act, which was intended to diversify the financial sector, to a new Credit Union law under consideration to clarify the regulation of these financial Cooperatives. As a result, various types of financial institutions have emerged for different niches of rural and low-income clients and micro and small enterprises that normally lack access to commercial banking services. These include:

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29 Other financial services, such as insurance and payment transfers, offer important potential to help manage risks and vulnerability, but are at an earlier stage of development in MFIs worldwide and especially in Africa.
Formal (licensed by central bank):
- Rural and Community Banks
- Savings and Loan Companies (Non-Bank Financial Institutions)

Semi-formal (registered organizations, but not licensed by central bank):
- Credit Unions (Cooperatives)
- Financial NGOs (companies limited by guarantees)

Informal (not necessarily registered):
- Savings collectors (many belong to a registered Cooperative Association)
- Rotating and other savings and credit associations, including community-based organizations

With some 560 branches and outlets, the 125 Rural and Community Banks (RCBs) account for about half the service points and more than half the clients of the formal financial system (including universal banks), even though only 5-7 percent of total assets. But their financial standing had been weakened by poor loan portfolio performance and high inflation in the 1980s, so the central bank imposed high reserve requirements during the 1990s, which helped restore their financial health but left them little capacity to lend. Given their importance as the backbone for greater outreach by the financial system, the Government made RCBs the centerpiece of its Rural Financial Services Project (RFSP)\(^{30}\) through:
- Capacity-building of the RCBs, including training, MIS, computerization, and introduction of sound microfinance methodology;
- Establishment of an Apex Bank owned by the RCBs to service their needs and better link them to the rest of the financial system (e.g., check-clearing);
- Strengthening semi-formal and informal microfinance institutions linking them to RCBs.

During 2002-08, RFSP also supported strengthening of the policy and institutional environment, resulting in a Microfinance Unit in the Ministry of Microfinance and Economic Policy, which launched a Microfinance Forum for stakeholder dialogue; a Ghana Microfinance Policy; and a Performance Monitoring and Benchmarking system managed by the Ghana Microfinance Institutions Network.\(^{31}\)

As a result, the total number of clients reached by Ghana’s rural and microfinance institutions (RMFIs; including the Ghana Cooperative Susu Collectors Association) has grown at an annual average of 22%, while deposits and loans have grown at about 20-30% in real terms (see Figure below). Overall, about 45% of clients are women (ranging from 41% in RCBs to 84% in NGOs) and 30% are in the two lowest poverty quintiles. In 2006, these RMFIs were reaching 3.6 million clients with some US$378 million in deposits and US$226 million in loans. Thus, RMFIs reach about 15% of the total population (as against an estimated 10% for the commercial banking sector) and mobilize over a quarter of total deposits of the financial system as a whole.

A particular strength of Ghana’s RMFIs is that they are heavily savings-based and hence relatively self-sustaining; furthermore, successful NGOs that wish to mobilize savings can become licensed as savings and loan companies. Nevertheless, the number of loans remains limited (0.75 million, with very little for agriculture), despite recent easing of reserve requirements. The Government is introducing a Rural and Agricultural Finance Programme to further build capacities of both clients and RMFIs (especially by introducing new products and linking them to agricultural value chain actors and support agencies) in order to accelerate access to credit as well as savings.

\(^{30}\) Funded by the World Bank, International Fund for Agricultural Development, and the African Development Bank, and supported by German Development Cooperation.

\(^{31}\) In collaboration with the Microfinance Exchange and the Small Enterprise Education and Promotion network.
An important part of sustainable microfinance is to permit MFIs to accept savings deposits in addition to providing credit. As long as the money is readily available when needed, savings deposits are attractive to low-income customers because they provide a safe way to set aside funds for any foreseen or unforeseen purpose. They provide customers with a lower-cost way to meet the same needs that are met through borrowing. Critically, they enable MFIs to intermediate between savers and borrowers. Laws in many countries forbid institutions that are not registered as banks to accept savings. Legal reform in some countries (such as Uganda, Kenya, and Nigeria) have reduced the barriers to entry of (or transformation into) licensed financial institutions oriented toward serving lower-income clients – especially the -entrepreneurial poor. There has been less success to date in reforming the regulatory environment for credit unions and savings and credit cooperatives (SACCOs) to recognize the need for financial regulation and supervision to protect members’ savings, as well as recognizing their member-based cooperative nature (they are generally registered under Cooperative laws).

The additional costs of delivering training and other business services along with microfinance have to be weighed against the positive impact on repayment rates to assess whether the net result is a decrease or increase in sustainability, interest rates, and/or subsidy dependence. Ideally, such training (and other BDS) would be provided on a market basis parallel to (and, to the extent possible, accounted separately from) microfinance, but the willingness and ability to pay of HEs is notoriously weak. Furthermore, access to such services outside the major urban centers may be limited, especially as subsidized government and donor programs typically crowd out the entry of private service providers (except on contract). Where BDS markets are poorly developed (as they typically are in African countries for SMEs, let alone HEs), expanding the reach of BDS can be very expensive, with uncertain benefits. Literature and views on the impact and cost-effectiveness of basic business training to HEs are mixed, and support for such programs as part of a strategy to assist HEs has to be well tailored to the prospects and needs of particular categories or subsectors.
Given the generally greater willingness and ability of HEs to pay for the costs of microfinance, opportunities to leverage expansion of access to financial services may be more favorable than for BDS in a given context. However, the political risks of publicly-funded support for microfinance must be assessed, for two main reasons: (i) the high interest rates of short-term microfinance loans (relative to commercial bank rates, not relative to the higher costs involved) frequently attract political attention that can lead to counterproductive controls on interest rates (either generally or on government credit programs); and (ii) politicians often see microcredit as a convenient vehicle to distribute benefits, whether directed through MFI or parallel government programs, with negative consequences for the willingness of recipients to repay loans and for the independence of MFI. Hence it is important to evaluate the political willingness to support good-practice microfinance capacity-building programs through autonomous agencies, in order to design support programs that are likely to benefit the poorest and least-politically-favored enterprises.

Unwillingness to pay the costs of BDS or microfinance may be related to the poor information that HEs have about such services. Hence provision of information on the benefits of and ways to access such services is likely to be an important part of a strategy to expand services to HEs, requiring investigation of the ways in which they receive and act upon information. A corollary is to consider how quality can be assured and communicated. In the case of microfinance, this implies having an effective monitoring and supervision system, at least for those MFI that take savings from the public. Member-based SACCOS/credit unions and less formal Village Savings and Loan Associations offer a means of reducing the cost of microfinance through largely volunteer labor, but governance and internal control problems as they grow in size make it desirable to introduce self-regulation by an apex organization and, eventually, external supervision by the central bank or a designated regulatory agency.

A diagnosis of the potential for microfinance to provide improved support for HEs in an African country might involve addressing the following key questions:

(i) Does the global model of sustainable microfinance oriented toward poor clients exist in the country? (How does the financial performance of MFI compare to African and international benchmarks from the Microbanking Bulletin?)

(ii) Do MFI operate free from government interference, and does the legal/regulatory regime enable them to become licensed to take savings?

(iii) If so, how successfully do MFI of different types reach household enterprises?

(iv) If not, what are the opportunities for reducing interference and for establishing and developing sustainable MFI?

(v) Do commercial banks lend to HEs? Do they have branches in smaller towns and rural areas? Do they impose prohibitively large collateral requirements?

(vi) Do credit registries exist in the country? If so, does their coverage include HE clients?

**Indicators**

- Existence of MFI that lend to HEs, and their degree of sustainability:.
  - Proportion of MFI clients who are poor, women, rural, enterprise operators;
  - Operational and financial sustainability, portfolio-at-risk (or recovery rates) of MFI.
- Proportion of HEs with savings accounts and that have applied for loans (and their success rate).
- Savings portfolios of MFI as a percentage of loan portfolios.
- Existence of commercial bank lending to HEs.
• Existence of credit registries and whether they cover HEs.

**Key Strategic Interventions**

Types of measures to improve the access to finance of HEs in African countries include:

• Capacity-building support and product development for microfinance institutions to increase outreach and improve financial performance;

• Development of information systems, credit registries, financial literacy, and consumer protection programs;

• A comprehensive legal and regulatory framework with different tiers that enable licensed institutions to mobilize savings from and lend to the poor; strengthen capacity of supervisory authorities with respect to microfinance;\(^{32}\)

• Remove interest rate ceilings where they exist and modify collateral requirements to facilitate commercial lending to Hes;

• Remove unwarranted restrictions on acceptance of savings deposits by MFI s;

• Strengthen associations/networks of MFI s and linkages between formal and informal financial institutions.

V. **Data Collection**

Data collection is driven by the need for information on the key strategic themes in the preceding section and the types of analysis that are considered most relevant to the particular country. The orientation of this methodology is toward a basic exercise aimed at gaining a basic understanding of the nature and issues of informal HE employment in the country and prioritizing elements of a strategy to address them. Such a study can set the stage for more rigorous in-depth surveys by defining more precisely specific issues and hypotheses for further empirical investigation (especially where data of adequate quality or relevance to HEs are not readily available).

A. **Research Questions**

The overarching question for the country studies is how to raise the productivity and incomes of those working in household enterprises in each country context. This requires investigation of:

1. What are the principal constraints and market opportunities for HEs, and how do these differ by gender and from those for larger firms?
2. What policies, infrastructural investment, institutions and programs within the country are working well for HEs and could be strengthened or scale up?

Other relevant research questions include:\(^{33}\)

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32 Reform of the financial legal/regulatory framework may be a long-term objective in some countries.
Uganda Country Study: Raising productivity and reducing the risk of household enterprises – Study report

- How well do markets (product, labor, financial, BDS) markets function generally?
  - Are they accessible to HEs (in terms of ability and willingness to pay)?
- Is the legal, regulatory and policy environment positive, neutral or negative with respect to operation of HEs – at both nominal and implementation levels?

B. Multi-level Approach

Data analysis should ensure that the determinants of and constraints on productivity and risk in HEs, and their access to resources and markets, have been considered at all levels, i.e., not only the enterprises themselves (micro level), but also the context in which they operate at the macro (policy) and meso (institutional) levels. Constraints on (or opportunities for) HEs can be addressed through information on: (i) demand for their services or products; (ii) their ability to supply goods and services in the quantities and quality demanded; and (iii) the risks they face, both systemic (i.e., affecting HEs as a group) and individual (i.e., the fortunes of the particular enterprise). Developing a strategy to address these constraints and improve productivity will require information on policies, institutions and programs that are effectively reaching HEs.

The data may come from quantitative data analysis as indicated in Annex 1 or more qualitative information gathered along the lines of Annex 2. To a large extent, existing data may be able to provide a basic orientation on the above issues, especially when household surveys are available that have an enterprise module. Interviews and focus group discussions (FGDs) may be the most appropriate way to gain a basic understanding of policies, programs and institutions (at the meso level). The extent to which primary data collection is needed will depend on the availability and relevance of secondary data, the constraints in terms of time and budget, and whether certain specific issues have been identified by the Country Team to be addressed in depth. Table 1 summarizes some of the most likely sources of relevant data on the indicators proposed in Section IV (above), while Annexes 1 and 2 offer further suggestions on data sources.

<table>
<thead>
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<th>Table 1: Key Data Sources for Indicators</th>
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<td><strong>KEY INDICATORS</strong></td>
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<td>Public Investment and Policy Context</td>
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33 See also A.V. Adams (2008) for questions on knowledge gaps regarding markets for training and skills.
<table>
<thead>
<tr>
<th>Legal and regulatory framework</th>
<th>Rights of women to own property and borrow</th>
<th>ICAs, Doing Business, legal codes</th>
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<td></td>
<td>Legal status of HEs doing business in own name</td>
<td>Interviews with municipal authorities and business/trade associations</td>
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<td>Availability of mechanisms for conflict resolution</td>
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<td>Access to markets</td>
<td>Measures of marketing patterns</td>
<td>HE surveys, ICAs, household surveys</td>
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<td>Integration of HEs into value chains</td>
<td>FGDs with entrepreneurs</td>
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<td>Penetration of cellular phones</td>
<td>Value chain studies</td>
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<td>Complaints about transportation infrastructure</td>
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<tr>
<td>Access to knowledge, skills and BDS</td>
<td>Literacy, educational levels and training of HE managers and workers (by gender)</td>
<td>HE surveys, ICAs, household surveys</td>
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<td></td>
<td>Prevalence of apprenticeship</td>
<td>FGDs with entrepreneurs; business histories.</td>
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<td></td>
<td>Willingness of HEs to pay for training and other BDS training</td>
<td>Value chain studies.</td>
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<td></td>
<td>Acquisition of embedded knowledge and skills through value chain transactions</td>
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<td>Access to finance</td>
<td>Proportion of MFIs’ clients who are poor, women, rural, enterprise operators</td>
<td>Banking statistics</td>
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<td>% of HEs with savings accounts and that have applied for/gotten loans</td>
<td>HE surveys; household surveys</td>
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<td>Operational and financial sustainability, portfolio-at-risk or recovery rate of MFIs</td>
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<td></td>
<td>Existence of credit registries and whether they cover HEs</td>
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C. BASIC ASSESSMENT (QUANTITATIVE)

The first step is to use national data to give an overview of the relative size and important of the informal economy (HEs in particular) in employment and national income. Quantitative analysis of household or labor force survey data can provide a picture of the characteristics (e.g., location, gender, education) of households engaged in economic activity (in particular, own-account work). If an enterprise module is included, it may be possible to relate these characteristics to productivity and incomes in HEs (see Annex 1). ICAs can be used to give a general picture of the most important concerns of (i.e., perceived constraints on) the private enterprise sector; informal sector ICAs and rural ICAs, if available, can give a more in-depth understanding of the extent to which the main (often growth-oriented) issues for larger are relevant to HEs, which may be more concerned with managing vulnerability (security, harassment, illness, etc.). In particular, ICAs can indicate the
extent to which increased budgetary expenditure on specific areas of infrastructure might respond to
the demands of HEs (or MSMEs) to address key constraints on their operations. Furthermore, the
top-ranked constraints from an informal sector ICA or other survey of HEs (or MSEs) can indicate
important areas for further investigation.

D. INVENTORY

At the initial stage, as a basis for further qualitative analysis, an inventory should be made of the
following insofar as they are relevant to the informal economy, particularly HEs:
- Studies (including on MSMEs, migration, vocational training or skills, microfinance, value
  chains in which HEs are specifically involved, cooperatives and small business associations,
  etc.);
- Policies and laws that have been identified as directly affecting informal enterprises in
  poverty and enterprise studies, CEMs and other documents;
- Programs and projects (government, donor) that purport to address employment and income-
  generation of the poor, youth and women; or involving financial, training and other support
to them;
- Institutions that are most directly relevant to HEs, including:
  - Government agencies for micro/small business;
  - NGOs and private training/BDS providers focused on microenterprise;
  - (Micro-)finance institutions;
  - Associations and networks of street vendors and trades in which HEs are heavily
    engaged; and the extent to which these are incorporated into the trade union
    movement.

E. QUALITATIVE INFORMATION

The documents and studies inventoried should be supplemented with interviews and focus group
discussions to gain a better understanding of the issues from the viewpoints of those involved,
especially the HEs themselves (e.g., through associations of street vendors and subsector
associations that include HEs (such as bakers, hairdressers, seamstresses and tailors), supplemented
by a survey of individual HEs if no enterprise module is available as part of household survey data.
It is difficult a priori to provide a specific format that will fit all countries; an international firm may
be contracted to design and implement an approach across a number of the sample countries. Annex
2 provides an indicative list of key information and issues that should be addressed in the areas of:
- Policies and infrastructure;
- Programs, projects;
- Institutions and service providers.
Country teams may also undertake further in-depth work in specific areas identified as major constraints on HEs or of particular relevance to their country. In particular, countries may combine the HE study with the parallel component on linking education, skills development and employment in informal sectors. In countries where data are lacking specific to HEs (as distinct from larger enterprises), surveys may be needed of HEs and of households that have not started enterprises (and why). Specific issues such as youth employment or microfinance development may be important in some countries. Other related topics may include rural-urban migration, the overall environment for private business investment (including informal), land use and titling. Such issues may require additional survey work to collect primary data, either as part of the initial country study or as follow-up (if issues are well articulated and funding is available, e.g., in existing projects). In the absence of enterprise modules in household surveys that are available, a sample survey may be desirable to investigate in more detail the relationship between household characteristics and enterprise performance.

VI. Implementing the Study and Developing a Strategy

Because analysis of the informal economy touches on such a wide range of issues, there is a risk that trying to provide a comprehensive report will lose focus. To manage this trade-off, a selective approach of prioritizing what topics will be discussed in the main report and what will be relegated to annexes or left out can enhance the readability and impact of the report. This involves going through the main themes and issues that have been analyzed to prioritize those that represent the most binding constraints (or opportunities for scaling up cost-effective programs) and are feasible in terms of the politics and institutions involved. Consultation and dialogue with HEs and their representatives, as well as officials, are an essential part of this process, to ensure that the results are consistent with their views and realistic in terms of what can be accomplished.

A. Carrying Out Country Studies

While an effort has been made to focus on the key issues affecting productivity and risks of HEs, the topic is inevitably large, and comprehensive implementation of all aspects of this Framework could be daunting in terms of the resources and time required. It may be preferable to break the work into stages, to obtain intermediate outputs and to be able to consult with and build consensus among stakeholders. Preparation of a country study can be divided into six discrete steps, as shown below – more or less sequential, but interrelated. Annex 3 provides an indicative outline of how the data and analysis might typically be brought together in a country study – subject to adaptation to particular country circumstances and areas of emphasis.

1. Inventory: Annotated bibliography of sources on HEs and relevant policies, programs and institutions, with a brief description of the nature of data and information relevant to HEs and a
summary of key conclusions or recommendations regarding HEs, MSMEs or the informal sector. The objective is to identify sources of information on:

- **HEs (and informal economy as a whole):** Size and economic roles; trends over time; productivity drivers; and constraints in the formation, operation and growth of HEs.
- **Environment and support affecting HEs:** Key policies and infrastructure; programs and projects; institutions and service providers.

2. **Literature Review:** Presentation of the available data, analysis and conclusions regarding HEs by addressing (to the extent possible) the questions and issues raised in Annexes 1 and 2, in particular with respect to the key public policies and investments affecting HEs and the constraints they face (by gender and relative to larger enterprises).

3. **Analysis of HE Data:** Based on available datasets, analysis of the size and characteristics of HEs, their economic roles and trends, productivity and constraints, by gender and with comparisons where possible to MSMEs and to other elements of the informal economy. The report should constitute an initial draft of Chapters 1 (Introduction) and 2 (Nature and Status of Household Enterprises) of the Country Study (see Annex 3), plus outline the key issues arising from the literature regarding the policy environment, institutional and support environment, and strategic priorities.

4. **Interview Guidelines:** Based on the preceding analysis, identify the most critical issues, policies, programs and institutions for further in-depth analysis through in-country interviews, focus group discussions, and additional surveys if needed, in order to derive workable recommendations and strategies. A preliminary list of organizations representing HEs, policymakers, donors, programs, institutions, individual HEs, and others to be interviewed should be prepared, along with a draft questionnaire or interview guidelines.

5. **In-country Workshop:** Especially in cases where the ultimate objective is to build consensus around a strategy for HEs or the informal economy, it is desirable to hold a workshop to present the findings from the data analysis and the key issues for further study, involving many of the organizations and individuals who are to be interviewed. A workshop report should summarize the feedback and recommendations from participants, and serve as the basis for the final program of field work.

6. **Interviews, Focus Group Discussions:** Interviews and focus group discussions with organizations representing HEs, policymakers, donors, programs, institutions, individual HEs, and others that the country team and consultant have identified provide qualitative information needed to complete the analysis indicated in Annex 2 and the country study chapters on the Policy Environment, Institutional and Support Environment, and Strategic Recommendations (see typical outline in Annex 3). Special efforts may be needed to obtain the views of the self-employed and family workers in HEs and informal sector organizations, as well as service providers to them.
B. CONSULTATION AND DIALOGUE

This methodology is intended to give guidance in how to understand and diagnose the issues surrounding development of the informal economy in a particular context, and to suggest some lessons in what appears to work (or not). However, such understanding – and any programs derived from it – would be incomplete without direct consultation with the actors themselves (i.e., HEs, low-income households, their associations, and organizations that serve them). While much of the data collection and analysis may be contracted out, the interpretation may be flawed if those responsible fail to engage in a “bottom-up” process of consulting directly with those concerned. Such a consultative process is necessary to understand both what practical measures are most desired by HEs and why certain ideal measures may fail in practice.

Despite poverty-oriented statements and policies at the national level, the divergence of interests between the politically and economically powerful and the HEs and working poor may impede effective implementation and achievement of results. The political realities, as well as economic and social constraints, make it unlikely in most African countries that an ideal, fully integrated program of support to HEs would be implemented effectively. Hence it is important to utilize the qualitative interviews and workshops for review and dissemination of results to engage with policymakers and municipal authorities, as well as other stakeholders.

An important function of the consultative process is to ensure that recommendations for strategic priorities take into consideration any political, institutional and budgetary limitations on what can be accomplished both in the near term and over time. One role of the country study is to document the size and importance of HEs and the informal economy and raise political awareness of how supporting them can help achieve national growth and poverty reduction objectives. To arrive at a practical, focused approach that is implementable, the country study can be used as a basis to establish or strengthen mechanisms for continuing dialogue and negotiation among policymakers, representatives of HEs (e.g., their business associations) and support agencies to arrive at measures that make sense to all concerned and can be implemented. Setting up such mechanisms and strengthening the representative associations are important in any support program.

C. PRIORITIZING AND STRATEGIZING

The country study together with the dialogue process form the basis for a policy or strategy document for the informal HE sector. The analysis of determinants of and constraints on demand, supply, and risks in the particular country context provide a basis for assessing what are the most binding constraints and where there are good programs and opportunities for scaling up. Prioritization is important to arrive at a limited, implementable strategy, rather than an overly comprehensive program that tries to cover too much. The quantitative and qualitative analysis should be used as a basis for applying the principles of cost-benefit analysis (if actual calculations are not available or feasible) to prioritize measures for inclusion in the strategy. The process of prioritization must also take into account the political commitments (e.g., to employment, private sector, participation of the poor in decision-making) and constraints that may make some measures
more readily implementable than others. The intention is to produce a strategy that is prioritized and selective, while integrated in terms of addressing critical constraint at different levels.

It may make sense to organize strategic interventions by level: macro, meso or micro (see Table 2). Public policy and investment measures are likely to fall primarily into the macro category; institutional development at the meso level; while interventions to address constraints and promote productivity tend to be at the meso and micro levels.

<table>
<thead>
<tr>
<th>Table 2: Strategic Framework by Level of Intervention</th>
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<tbody>
<tr>
<td><strong>Macro</strong></td>
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<tr>
<td>Improving policy, infrastructural and business</td>
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<td>environment; Reducing risk and vulnerability</td>
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<td>Removing constraints; Raising productivity and</td>
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<td>market access</td>
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References


ANNEX 1

PLAN OF ANALYSIS OF DATA ON HOUSEHOLD ENTERPRISES: CHARACTERISTICS, TRENDS, PRODUCTIVITY, CONSTRAINTS

This Annex defines the major questions to be answered through analysis of available data, rather than the specific data manipulations involved in answering them. It does not attempt to spell out all details of the analysis of the HE sector, which will differ by country depending on the types of data that are available.

The focus of this Annex is on using available statistical data. Possible secondary data sources include household surveys with enterprise components, labor force surveys, small enterprise surveys, and special surveys that may have been taken on particular sectors or subjects. It may be necessary to complement such data with focus group discussions, especially on the topic of constraints (see Annex 2). If possible, the analysis should use data collected within an enterprise framework, but parts of the analysis can also be done if the only data available use a labor force framework.

Four sets of analysis are proposed:

- Description of economic roles of HEs as of the latest available data point;
- Description of trends in the economic roles of HEs, based on comparison of the latest available data with earlier data if possible;
- Analysis of productivity drivers in HEs;
- Analysis of constraints to the survival and growth of HEs.

Current Economic Roles of HEs

The purpose of this set of tabulations is to delineate the size and structure of the HE sector. It is important to measure the importance of HEs as providers of income and employment for lower income (poor and near-poor) households in urban and rural areas. Another important goal is to show how HEs contribute to the welfare of women.

Specific questions to be answered to the extent possible:

- How many HEs are there (nationally, in rural and urban areas, in the main city)?
- How many (and what % of) households have HEs?
- How many people work in informal statuses (as self-employed or unpaid family workers in HEs; or as employers in informal enterprises, apprentices, part-time or casual workers) in:
  - their primary occupations?
  - their secondary occupations?
- What is the distribution of HEs:
  - by sectors of economic activity?
  - by earnings level (net or gross, aggregate or per worker)?
- How is informal employment distributed among sectors of economic activity?
- What share of total household income do HEs provide?
- What proportion of HE managers (employers and self-employed):
  - are women?
  - are literate?
  - are migrants?
  - have had significant formal training?
• What is the distribution of HE managers by:
  o level of educational attainment?
  o age?
• How are HE workers distributed by level of educational attainment?
• What % of HE workers (and other informal workers) have had significant formal training?
• What % of HEs are located in households where income per capita is below the poverty line?
• What % of HEs (or their households) have:
  o basic utility services (running water in the house or nearby, electricity, sanitation)?
  o nearby access to markets or other sales points for their goods and services?

It will be instructive to compare the above characteristics of HE managers and workers to those of MSMEs, to the extent that data permit. Answers to these questions can be provided as simple tabulations or cross-tabs as appropriate. In some cases, attention may focus on particular sectors (e.g., retail commerce), locations (e.g., principal city or urban areas in general), genders (woman-managed HEs), or income levels (HEs located in poor or very poor households).

Trends in the Economic Roles of HEs

This set of analyses would repeat for earlier years, as feasible, the tabulations carried out in the previous set. The goal would be to track for earlier years some of the most important dimensions measured for the latest year. Interesting questions that could be explored would include:

• The growth of the HE sector (in terms of numbers of firms, numbers of workers, % of total employment).
• Changes in its composition by economic sectors and by rural-urban location.
• Changes in HE managers with regard to:
  o age distribution (e.g., are young people setting up HEs?).
  o literacy (e.g., is the entry of younger people raising the level of literacy?).
  o educational attainment (e.g., are young people better educated than their elders?).
• Changes in the gender of HE managers and workers (is the informal sector becoming more feminized?)
• Changes in earnings levels (rising? falling? steady?).

Productivity drivers in HEs

The object of this analysis is to identify characteristics of HEs that lead to higher earnings. One form of analysis would be earnings function regressions that take some of these characteristics as independent variables and use some measure of HE earnings as the dependent variable. This will indicate correlations between earnings and the policy and infrastructural environment, entrepreneur characteristics (including gender), sector, etc. (though not the direction of causality, in the absence of good panel data).

A major challenge for this analysis will be to develop a plausible measure of HE earnings. The following concepts, ranked in order of desirability, are possibilities:

• Net earnings from HE including returns to labor. This could be measured either directly through a question about cash profit (sales minus purchases on material inputs and services) or indirectly through reconstruction using the answers to separate questions about receipts from sales and input and service purchases. If there is a choice between these two approaches, the latter one is probably preferable.
• Gross earnings from HE (sales).
• When no separate data are available on HEs and household consumption can be measured but not total household income, consumption per worker could serve as a rough proxy for HE earnings per worker employed.
Possible independent variables include:

- Number of workers or full-time equivalents (if the dependent variable is total HE earnings).
- Age/experience/training/educational attainment of HE manager.
- Gender of owner/manager.
- Access to infrastructure (roads, electricity, markets).
- Access to credit (formal, informal).
- Sector of economic activity.
- Location (e.g., rural vs. urban).

Separate regressions could be run, as possible and desirable, for specific economic activities (e.g., street trading), locations, etc.

**Constraints to the Formation, Operation and Growth of HEs**

Some surveys contain questions about perceived constraints on the formation, operation and growth of HEs. While the answers lie in the realm of perception and may not reflect reality, they are worth compiling if available. The most commonly cited constraints in such surveys are access to credit\(^{34}\) and access to markets (including market information). Other constraints that may be mentioned include:

- Lack of demand.
- Competition from other producers/traders.
- Crime.
- Harassment (including bribes requested) by police and other officials.
- Utility services (e.g., reliability of electricity supply).
- Illness/injury.
- Old age.
- Cultural barriers (e.g., only members of a particular ethnic group have access to trade credits).

When available, rankings of perceived constraints should be tabulated, both for HEs in general and for specific groups of interest, such as particular economic sectors, woman-managed enterprises, etc., and compared to rankings by MSMEs and/or formal enterprises.

Information on enterprise constraints from surveys can be complemented by similar information collected in focus group discussions (FGDs). FGDs can also be used to get some idea of the constraints that entrepreneurs perceive when no survey data are available.

**Likely Sources of Data on HEs**

- Household and labor force surveys that include data on primary and secondary employment, own-account workers, earnings, education, and training;
- Enterprise modules in household surveys with more in-depth data;
- Investment climate assessments (ICAs), especially if they include informal or rural modules;
- Surveys of MSMEs;
- Baseline and evaluation studies of MSME or employment projects.

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\(^{34}\) Perception of access to credit as a constraint must be interpreted with caution, since it may reflect lack of liquidity due to weak demand (or market saturation) or poor performance of the enterprise, and says nothing about the creditworthiness of the respondent.
ANNEX 2

PLAN OF ANALYSIS FOR POLICIES, PROGRAMS AND INSTITUTIONS INFLUENCING HOUSEHOLD ENTERPRISES

In each country, there will be policies, programs, and institutions that are either explicitly intended to promote (or restrict) informal income-generating activities, including HEs, or may have unintended consequences for them. These need to be first inventoried and then analyzed (at least those identified as significant) in terms of their outcomes and the costs of supporting those with positive impact, or reducing constraints. The inventory and analysis of data from available documents and studies can likely be done through local consultancies. It is anticipated that an international consultant would be engaged to review and deepen that analysis and to undertake the qualitative interviews and data-gathering (in collaboration with local consultants), for quality assurance and consistency across countries.\(^\text{35}\)

These policies, programs, and institutions may arise at the national, regional, or local levels of government and may or may not involve donor organizations. The list below is indicative, and not necessarily all relevant or exhaustive for particular country situations.

**Key Policies and Infrastructure:**

Mainly from available documents and studies:
- Land use, in particular rights/restrictions on businesses and hawking in urban centers.
- Business registration, licensing, and taxes, in particular the legality of doing business (or opening a bank account) without registration at the national level; and practices at the municipal level, including additional licensing requirements (often imposed by local municipal authorities for revenue purposes) and explicit or unauthorized collection of taxes/fees from informal businesses.
- National health insurance program (eligibility of informal sector).
- Interest rate restrictions (general, or specifically on government credit programs).
- Tax and tariff policies that impact differentially on formal and informal enterprises.
- Accessibility and cost of basic infrastructural services to HEs:
  - Electricity and water: preferential rates to small users; issues of unreliability that may adversely affect small users (e.g., need for costly back-up generators; having to purchase water by the bucket or jerry can);
  - Road network and ease of transport to enable HEs to reach broader markets beyond immediate vicinity (or to obtain inputs).

Mainly from interviews and focus groups:

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\(^{35}\) While it is anticipated that an international consultant or firm would be engaged to develop the qualitative interview methodology in more detail and implement it across countries, some country teams may wish to engage someone who is already familiar with the country and has conducted previous relevant research.
• Municipal authorities (in main urban centers) and [separately] associations of street vendors and other categories of HEs (e.g., subsector associations):
  o Views on scale of informal business activities (including hawking) relative to market space available;
  o Actual or planned methods for addressing imbalance (e.g., banning/removing hawkers; increasing market space), and success of past efforts;
  o Extent of dialogue or conflict with associations of street vendors and other informal/small businesses;
  o Position on registration and taxation of informal businesses (including any efforts to involve associations in collection of taxes from or self-regulation of members)

Programs, Projects:

Mainly from available documents and studies:
• Youth training and employment programs (what sort of skills and management training provided; financial or other assistance to start-ups; costs and any evidence of impact of such programs).
• Special lines of credit and credit schemes for microenterprises (do they compete with, undermine or complement microfinance through financial institutions?).
• Apprenticeship system (what trades are most commonly sought for apprenticeship; any evidence of saturation of these trades?).
• Rationale, objectives, focus, and implementation mechanisms of projects (or components) for (i) micro, small & medium enterprises (ii) microfinance institutions.

Mainly from interviews with program staff and government/donor officials:
• Assessment of the extent to which the above programs are relevant to HEs and how cost-effective they are.

Institutions and Service Providers:

Mainly from available documents and studies:
• Description of types of financial institutions providing microfinance, methodologies (solidarity groups, village banks, individual lending), and target groups (in particular, the extent to which the –entrepreneurial poor[1] are being served).
• Availability of basic training in enterprise management and financial skills (including financial literacy):
  o Government agencies providing assistance to micro/small enterprises;
  o Description of the market (or absence of market) for; competence of private local training and business development service providers (NGOs as well as training institutes and consulting firms); extent to which they are oriented toward enterprise clients or toward government/donor programs.
• Informal (traditional) contract enforcement/dispute resolution mechanisms.
• Donor programs, including:
  o Microfinance programs
  o BDS programs
  o Training programs
  o Business enabling environment programs
Mainly from interviews, focus groups, or special enterprise surveys:

- With selected microfinance institutions: the extent of their orientation toward and ability to serve HEs (or the entrepreneurial poor), and the ability of the latter to satisfy the requirements of financial institutions and to save and repay loans.
- With selected training providers: assessment of the managerial and financial competence of HEs, the extent to which additional training is likely to raise their productivity (individually and as a whole), and whether self-employed entrepreneurs are sufficiently aware of the benefits of such training to be willing (and able) to pay for (part of) it.
- With HES/self-employed entrepreneurs: extent to which they depend entirely on their own financial resources; how readily they can access microfinance institutions; how well they can bear the cost of credit if obtained.

**Key Elements of Description of Programs, Institutions and Policies**

It will be desirable to provide an Annex describing the programs, projects, institutions and (to the extent possible) policies that are most relevant to the following topics.

- Markets and accessibility of resources:
  - Labor and product: Evidence of balance or imbalance between growth of demand for and supply of (i) labor and (ii) goods and services of informal enterprises;
  - Financial and BDS: Extent to which HESs (or MSMEs) can and do access relevant financial services and training and other business development services (BDS);
  - Training and information: Accessibility of relevant training, skills and knowledge to HESs;
- Public policies and investment in infrastructure (relevant to HESs);
- Legal framework for HESs;
- Urban policies and investment relevant to HESs and informal business (e.g., street vendors, hawkers);
- Linkages between formal and informal economic activities or businesses;
- Associations, networks, cooperatives and clusters of informal enterprises.

The description should include as many of the following indicators as can be obtained:

a) Problem addressed and key objectives
b) Description of the intervention, institution or policy
c) When it began (and expected end date, for projects)
d) Target beneficiaries, and extent to which HESs are included
e) Financing sources and amounts available per year
f) Number of beneficiaries served during past year or relevant period of time; and expected number to be reach over time
g) Expected outcomes, and any evidence of benefits or impact (statistical or perceptions of beneficiaries)
h) Risks/constraints affecting realization of outcomes
i) Direct and indirect costs per beneficiary

Analysis of each policy/program/institution should apply the principles cost-benefit analysis to determine its contribution to the performance and development of HESs and the welfare of the
households with which they are associated. Determining impact is a complex matter, which requires
the construction of a plausible counterfactual (a picture of what would have happened in the absence
of the policy/program/institution). Carrying out impact evaluation studies is beyond the scope of the
present exercise, but information on impacts (or even outcomes) from existing studies should be
utilized to the extent available.

**Likely Sources of Information**

- National policy statements on employment, migration, informal sector, urban
development, microfinance;
- Legislation on business registration on licensing of microfinance institutions;
- Studies of the business environment, registration, and taxation;
- Studies of the financial sector focusing on microfinance;
- Studies of training, apprenticeship, or business development services available to
MSMEs;
- Documentation of projects relating to employment, enterprise development (focused on
MSMEs), infrastructure (transport, electricity, water), urban planning, training, and
social protection (particularly health);
- Documentation of government institutions and programs, NGOs and other agencies with
a primary objective of facilitating employment and training (especially of youth), small
enterprises, credit, role of women.
ANNEX 3

OUTLINE OF TYPICAL COUNTRY STUDY

1. Introduction
   Background
   Rationale for focus on Household Enterprises
   Overview of country's economic growth and poverty trends
   Structure of the report

   Informal economy pyramid
   Definition of HEs
   Trends in employment in informal economy and (non-agricultural) HEs
      Evidence of gaps between labor force supply growth and demand (absorption in informal vs. formal employment)
   Characteristics of HEs (subsectors, age, gender, education, training, etc.)
   Earnings [in more or less detail, depending on availability of data]
   Perceived constraints

3. Policy Environment
   Legal status
      Business registration
      Access to land, worksites
   Municipal policies, including extent of consultative mechanisms in policy-making
   Orientation toward markets and private sector-led growth;
      Policies and government programs for HEs/MSMEs
      Public-private dialogue mechanisms, and extent of informal sector participation
   Financial sector policies (restrictions that might affect microfinance)
   Accessibility and cost of infrastructural services to HEs (transport, electricity, water)

4. Institutional and Support Environment
   Organizations (associations, cooperatives, unions) representing informal workers and their effectiveness (extent of their voice/ participation in politics or policy-making; services to members)
   Microfinance: institutional structure and outreach (especially to self-employed)
   Technical training and support to HEs:
      Government agencies, donor programs, NGOs
      Traditional apprenticeship system

5. Priorities and Strategic Recommendations
   Most critical constraints on and risks to HEs
   Support mechanisms that are working opportunities to scale up cost-effectively
   Political, institutional and budgetary limitations on what can be done (short-term, longer-term)
   Recommended strategic priorities.
ANNEX 4

PRINCIPLES FOR MARKET-ENHANCING APPLICATION OF SUBSIDIES

Using subsidies to accelerate the development of markets (or to make existing markets more pro-
poor) can be tricky because of the potential market-distorting effects. Although focused on BDS
markets, the following guiding principles apply generally when designing subsidies that may affect
the prices of transactions so as to limit the extent and duration of distortions, maximize positive
impacts, and monitor results.

[Excerpted from Donor Committee for Small Enterprise Development, “Business Development Services for

A4.1 Subsidies

Long-term donor subsidies to the demand or supply of [services to enterprises] are likely to distort
markets and crowd out the commercial provision of services, thus undermining the objectives of impact,
outreach, cost effectiveness, and sustainability that are the pillars of the market development paradigm.
Subsidies may be justified in the short term as an investment in the development of markets (e.g., through
development of new products and models). However, even temporary subsidies can create distortions, and are
justified only if their market development impacts outweigh their distortionary effects. Therefore, donors
must exercise care in the application and duration of subsidies:

- **Specificity:** Subsidies…should be designed to achieve specific market development objectives. The
  starting point is [a] market assessment, which can identify points of intervention to address specific
  market development constraints.

- **Duration:** It is not possible to state a specific duration for temporary subsidies for market
development, given the wide range of types of services and stages of market development in different
countries. What is important is that subsidies in markets should be time-bound with specific criteria
for their reduction and elimination as market development objectives are achieved—in other words,
donors and facilitators must have a clear exit strategy for subsidized interventions.

- **Point of application:** Subsidies applied at the level of the transaction (i.e., direct subsidies to reduce
  the cost or price of services) are likely to be more distortionary than developmental. As a general
rule, transactional subsidies are more distortionary than pre- and post-transactional subsidies. Pre-
transactional subsidies include, for example, those used for R&D and the development of service
products, test marketing and product adaptation, capacity building, and raising awareness. Post-
transactional subsidies could be used for monitoring and evaluation of the impact of interventions on
market development or social/economic development, which may be outside the scope of evaluations
conducted by [service] providers as part of good management practice.

A particularly difficult issue is defining the extent to which services have characteristics of public goods that
might justify longer-term subsidies. Although most [services to enterprises] are considered to be private
goods, there may be times and situations when they have a strong public goods nature, in that benefits are

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36 BDS markets|| has been replaced by –markets|| and –SEs|| (small enterprises||) has been replaced by
–hEs|| Other editorial changes to make it more broadly applicable are shown in brackets.
broadly available without being fully appropriable by an individual supplier.\textsuperscript{37} Accelerating structural change in nascent markets may require support for services in areas such as information, dissemination of best practices and technologies, and human resource development. Research and development and quality assurance (e.g., through certification of trainers) are market-enhancing activities whose costs may be difficult to fully recover. Besides such cases of public goods, [service] providers may choose to cross-subsidize between clients with greater and lower ability to pay as a business strategy or in pursuit of social objectives to increase outreach to target groups. While such objectives should be distinguished from the…market development objectives that underlie these Guiding Principles, the principles of subsidizing in the least distortionary and most cost-effective way and developing appropriate products and delivery mechanism still apply.

A4.2 Exit strategy

Consistent with the temporary nature of subsidies, interventions should have a clear exit strategy defined from the beginning. The exit strategy should be linked to the achievement of the intervention’s market development objectives—for example, the creation of sustainable [service] providers or the development of viable products tailored to the lower end of the market.

A4.3 Focus on technical assistance and incentives

Donor interventions should concentrate on support for facilitation, technical assistance and incentives to encourage competitive performance of new and existing [service] providers, innovations, and the development of appropriate service products. These types of interventions often require relatively less financial assistance, but a higher level of skill and market knowledge on the part of donors. The proportion of total project funds allocated to technical assistance is likely to be higher compared to that in traditional interventions that subsidize service delivery.

A4.4 Selecting [business-like] partner institutions

Successful [service] providers deliver services in a business-like manner. They are demand-led, entrepreneurial, and act as commercial market players. Often, successful [service] providers focus on a limited range of core businesses and do them well, rather than diversifying too broadly. [Service] providers should develop transactional relationships with HE clients based on exchange rather than charity, and develop a sound understanding of the needs of their clients as part of their business strategy.

Private, for-profit providers or business partners providing the services as part of a business relationship tend to demonstrate these characteristics best. [Service] providers should not have a charity orientation, but may have a social orientation combined with rigorous institutional performance targets. In reality, there are often many not-for-profit [service] providers already in the marketplace, and during the transition to a commercially-oriented model there is much work to be done to assist NGOs and other not-for-profit providers to become more sustainable and businesslike.

For interventions to be both sustainable and locally owned, they must build on what is already there rather than supplanting it with imported visions or models. The choice of partner institutions should also be guided by the principle of subsidiarity: delegating responsibility to the lowest possible level and to those who are closest to HEs, both geographically and socially.

\textsuperscript{37} This can also apply to basic training in financial literacy and simple business skills where educational levels (or quality) are low, which may be considered a substitute for what should have been provided through the basic educational system.
Finally, access to technical assistance and incentives through facilitation programs should be open to all market players in a certain service market that fulfill established criteria. Selecting only one or a few of the market players present for exclusive assistance could lead to further market distortions.

A4.5 Role of facilitation [agencies]

[Market development] facilitators usually implement publicly subsidised short-term programs that should exit once the market for a certain business development service or services has developed or move on to new market development issues. Some facilitation services (e.g., franchising, training-of-trainers) may eventually be viable on a commercial basis, and there may be scope to spin these off or stimulate local providers of these services.

Because of their different objectives and interests, mixing the roles of facilitation and provision may lead to market distortions and inefficient use of resources. However, particularly in very underdeveloped markets, donors and facilitators may need to start by supporting a particular [service] provider or directly launching a new service or model, in order to demonstrate its potential. As the service becomes established, the donor can then withdraw from a market leader to a facilitating mode, using experience gained in the initial provision to support a range of providers for the new service. If a [service] provider also performs facilitation functions, it should separate these activities insofar as possible for clarity of objectives and evaluation along commercial and development lines, as appropriate. Donor support for business associations in the roles of facilitating or providing BDS (as distinct from general support to such associations as market support institutions) should follow these principles.

A4.6 Performance measurement and assessment

Systematic performance measurement provides a good basis for institutions to improve the design of instruments in response to client demand, as well as facilitating decisions by donors on types of interventions to improve the extent and quality of the market. Three categories of performance measurement are relevant:

- **Client impact**, in terms of changes in HE performance (e.g., sales, value added, profitability), or broader social and economic impact (employment, poverty alleviation, etc.).
- **Institutional performance**, according to indicators of outreach, cost effectiveness, and sustainability.
- **Market development**, measured for example by the price and quality of services available, HE awareness, trial and repeat usage, the level of satisfaction of HEs and the extent to which [service] providers are reaching previously underserved populations.

Different market actors have different interests, which in turn determine the type and scope of performance measurement that are relevant to them. For [service] providers, performance measurement is a management tool that helps them design marketing strategies, monitor customer satisfaction, respond to changes in demand, develop new and better products, manage costs, and establish staff incentives. Facilitators may be interested in monitoring the institutional performance of the providers they work with as well as progress in the development of markets. Donors need to ensure accountability in the use of their funds and are often focused on the broader social and economic objectives of employment, enterprise competitiveness, and poverty alleviation. It is unrealistic for donors to expect that [service] providers and facilitators will undertake evaluations that are not relevant to their operations. This often means that the cost of measuring the impact of programs on market development or social/economic impact must be borne by donors.

It would be useful for donors to use performance measurement to draw comparisons across programs, in order to choose intervention strategies and establish best practice. Comprehensive comparison is difficult
because what is measured depends upon the objectives of the institution or program. It is even more difficult to establish standards or benchmarks for individual indicators, since there are often trade-offs between indicators depending upon the program's objectives and target population (for example, between minimizing the cost of providing services, and serving high-cost groups such as rural entrepreneurs).

There are also many practical problems in performance measurement. For example, the problem of attribution: were changes in performance caused by the intervention or by other factors? Dealing with such measurement problems can be difficult and costly. One approach, consistent with current practice in micro-finance, is to use willingness to pay, or provider sustainability, as rough proxies for impact. In addition, it is probably necessary to field larger, donor-funded impact evaluations for certain types of interventions on a less frequent basis, to test the validity of proxy indicators.

Measurement problems also arise in the categories of market development and institutional performance. The current limited state of knowledge of the dynamics of [HE] market development, particularly in underdeveloped and distorted markets (such as in transition countries), makes it difficult to map progress. At the institutional level, indicators of prices and cost recovery are complex when services are bundled or paid indirectly, and measuring sustainability is complicated by the legacy of substantial subsidies received in the past. The staff of [support] institutions often do not have the expertise required to collect high-quality data, nor is it necessarily desirable to impose the costs of extensive new data collection on commercially-oriented providers.
## ANNEX 5

**INVESTMENT CLIMATE ASSESSMENT CONSTRAINTS (EXPANDED FOR HEs)**

<table>
<thead>
<tr>
<th>Product Markets</th>
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<tbody>
<tr>
<td>1. Amount of customers / demand</td>
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<td>2. Competitive market situation due to concentration of shops</td>
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<table>
<thead>
<tr>
<th>Access to Land, Equipment, Inputs</th>
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<tr>
<td>3. Access to land</td>
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<tr>
<td>4. Access to equipment &amp; machinery</td>
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<tr>
<td>5. Access to spare parts</td>
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<tr>
<td>6. Access to raw materials / goods</td>
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<tr>
<th>Workers</th>
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<tbody>
<tr>
<td>7. Access to qualified workers</td>
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<tr>
<td>8. Salary and wage levels</td>
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<tr>
<td>9. Access to training (accounting, production, marketing)</td>
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<thead>
<tr>
<th>Infrastructure, Utilities</th>
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<tr>
<td>10. Access to energy</td>
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<td>11. Cost of energy</td>
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<td>12. Reliability of energy supply</td>
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<td>13. Access to transport infrastructure</td>
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<td>14. Condition of transport infrastructure</td>
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<td>15. Access to telecommunications</td>
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<tr>
<td>16. Cost of telecommunications</td>
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<tr>
<td>17. Access to storage facilities</td>
</tr>
<tr>
<td>18. Incessant increase in rent of shops by owners</td>
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<th>Finance</th>
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<tr>
<td>19. Access to credit</td>
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<tr>
<td>20. Cost of credit (e.g. interest rates)</td>
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<tr>
<td>21. Failure of customers to pay</td>
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<tr>
<th>Legal, Regulatory, Business Environment</th>
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<tbody>
<tr>
<td>22. Bribes and other unofficial payments</td>
</tr>
<tr>
<td>23. Crime, theft, fraud</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Policies</th>
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<tbody>
<tr>
<td>24. Tax rates</td>
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<tr>
<td>25. Tax administration</td>
</tr>
<tr>
<td>26. Business licensing and regulation</td>
</tr>
<tr>
<td>27. Legal system (e.g. enforcement of contracts)</td>
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<tr>
<th>Demolition of structures due to Government environmental and municipal policies</th>
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<tr>
<td>28. Political uncertainty (political unrest, economic policy)</td>
</tr>
<tr>
<td>29. Economic instability (e.g. inflation)</td>
</tr>
<tr>
<td>31. Government trade policies (embargo on some goods and high tariffs)</td>
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<th>Government trade policies (embargo on some goods and high tariffs)</th>
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ANNEX 2

Inventory of studies and other information sources with a focus on Household Enterprises
UGANDA COUNTRY STUDY
Inventory of studies and other information sources with a focus on Household Enterprises

1. INTRODUCTION

This report presents an annotated inventory of studies and other information sources with a focus on HEs (household enterprises) and relevant policies, programs and institutions. For each of the articles inventoried, the name of the author (s) and the date of the study have been indicated, as well as the title and source of the material. A brief description of each study is given together with a summary of the study’s findings, conclusions and recommendations. While all efforts have been taken to capture as much relevant literature as possible, the inventory cannot be said to be exhaustive due to limitations dictated by the project’s timeframe and other resources committed to this part of the study.

Although many articles were reviewed, only a few were found to cover HEs as a major focus. Most of the articles found had their focus on poverty without narrowing down the discussion to household enterprises or the informal economy at all and could therefore not be included in the inventory. Accordingly, while more than 100 articles were reviewed, only 31 were found to contain information that was considered sufficiently significant to justify inclusion in the inventory. With 11 studies, -Policies and infrastructure affecting household enterprises]- was the most popular area of study among the 30 studies inventoried, followed by -constraints faced by HEs] and -Productivity drivers] with 6 studies each. -Institutions, programs and projects]-, as well as -Economic roles and trends overtime] with 4 and 4 studies respectively, were the least popular areas of study. Apart from internet based sources, the main sources of the literature reviewed were:

• Economic Policy Research Centre (EPRC)
• Ministry of Finance, Planning and Economic Development (MFPED)
• Ministry of Tourism, Trade and Industry (MTTI)
• World Bank (WB)
• Makerere University Business School (MUBS)
• Uganda Bureau of Statistics (UBOS) and
• Ministry of Local Government
• Network of Uganda Researchers and Research Users (NURRU) – Resource Centre.

The inventory is organised in five groups as follows:

1. HEs and the informal economy as a whole
   1.1. Size, Economic roles and Trends overtime
   1.2. Productivity drivers
   1.3. Constraints in the formation, operation and growth of HEs

2. Institutional support environment affecting HEs
   2.1. Key policies and infrastructure
   2.2. Institutions and programs

Immediately following, is an overall summary of the key conclusions and recommendations of the literature reviewed. For ease of identification, the summary is arranged in the same order as the inventory.
2. SUMMARY OF KEY CONCLUSIONS AND RECOMMENDATIONS

2.1. Size, economic roles and trends overtime
According to the UBOS, there were 1.1 million household based MSEs in Uganda employing 1.7 million people at the time of the 2002 Census. At slightly more than over 1.0 million (97%), microenterprises were the overwhelming majority of all household based MSEs recorded, with Kampala alone accounting for 10% of the total. Among the regions, Eastern was leading with 26% followed closely by Central and Western with 25 and 23 percent respectively. Northern region had the smallest share of all microenterprises recorded with only 17 percent of the total.

An analysis of the distribution of microenterprises by industry shows that nearly two thirds (64%) of all MEs were engaged in trade (wholesale & retail) and motor vehicle repairs; followed by manufacturing (19%); and transport, storage & Communications: 6%. Accordingly 9 out of every 10 microenterprises recorded were either engaged in trade or manufacturing, or they were engaged in transport and communications.

While among the regions Northern region had the highest share of women employed in MSEs, among industries the Hotel & Restaurant industry had the biggest number of females employed. Transport, Storage and Communication, Construction and Fishing industries employed the least number of females, with less than 10% each, in their employ.

2.1.1 Source of employment: The informal sector in Uganda is a source of employment to a significant proportion of the population most of whom are women, and exists in both the rural and urban areas, with different regions in the country characterized by particular activities signifying the diversity of informal sector activities (Muwonge A., et al, 2007).

2.1.2 Broadening the tax base: The contribution of the informal sector to gross output and value added is substantial and offers an opportunity for broadening the tax base. (Muwonge A., et al, 2007);

2.1.3 Women’s increasing participation: Women’s increasing participation in non-farm activities is linked to greater reductions in poverty for women than for men (Constance Newman, and Sudharshan Canagarajab, 2000).

2.2. Productivity drivers
2.2.1 Educational standard: On the basis of household surveys conducted during the period 1992-2000 the highest growth in household earnings came from non-farm self-employment with educated households performing much better than the uneducated (Simon Appleton, 2001).

2.2.2 Access to electricity in the community allows different kinds of productive activities to be undertaken thereby reducing the vulnerability of households to poverty (Ibrahim Kasirye, 2007)

2.2.3 Personal values: The success of any small business is dependent on the values of its owner manager since the strategies he adopts in the running of his business are determined by his personal values (Akello Mary, 2004).

2.2.4 Access to marketing networks has a significant influence on the performance of importers and distributors of pharmaceutical products (Paul Tenywa Isiko, 2004).

2.2.5 Ability to maintain accurate records: The quality of record keeping has an influence on the performance of a small business (Esaete Margaret, 2005).

2.2.6 Entrepreneurial motivation: While Uganda entrepreneurs become entrepreneurs for monetary reasons, many of them chose to remain entrepreneurs because of the freedom that entrepreneurship accords them (Bewayo, Edward, 1995).
2.3. Constraints in the formation, operation and growth of HEs

2.3.1. Constraints in the formation and growth of HEs: The main challenges and constraints affecting the performance of MSMEs have been found to include: access to electricity; access to finance; access to telecommunications; quality of transportation; access to appropriate technology; education and skills; access to business information and land (MOFPED, 2008; Muwonge A. et al., 2007; Huuha T. S., 2003);

2.3.2. Constraints in the operation and growth of HEs cont’d: The absence of a clear national policy for the informal sector; inadequate access to reliable information about market opportunities and sources of competitive technologies; irregular, inadequate and high cost of utilities and lack of critical inputs such as raw materials (Muwonge A., et al., 2007)

2.3.3. The main constraints faced by food vendors (Toninyira Mukange): In addition to the above, constraints faced by food vendors in Kampala and Mbale districts have been found to include non-payment of bills by clients and lack of day care facilities (Huha T.S., 2003);

2.3.4. High taxes, Lack of market access: The growth potential of MSEs is negatively affected by limited access to productive resources (finance and business services), high taxes, and lack of market access (Ishengoma, E. K. and Kappel, R., 2008)

2.3.5. High taxes limit the performance and potential of MSEs in various ways; they reduce internal sources hence internal financing; they discourage expansion and formalisation thereby excluding MSEs from subcontracting arrangements. (Ishengoma, E. K. and Kappel, R., 2008)

2.3.6. Barriers to formalisation of business have a bigger effect on women entrepreneurs (Amanda Ellis, Claire Manuel, C. Mark Blackden, 2006)

2.3.7. Affirmative action by government in favour of the informal sector is likely to result inter-alia into an increase in (a) the sector's capacity to absorb employable labour force (b) the sector's access to finance and non-finance services and (c) stimulation of technology development and transfer in the sector (Global Distance Learning Centre, UMI, 2005)

2.3.8. The main investment climate constraints faced by street vendors include poor policies and regulations, lack of infrastructure, BDS and other services including child care, storage facilities, water and sanitation, refuse collection and lack of effective organisation among street vendors. (WIEGO (Women In Employment Globalising and Organising), 2003)

2.3.9. Formalisation of enterprises needs to be addressed from different angles including: (a) Reducing the cost of entry to and the costs of operating in the formal sector, (b) Increasing incentives for MSEs seeking to operate in the formal sector, (c) Reducing obstacles to the growth of MSEs, and (d) Identifying inexpensive approaches through which to enforce compliance with government regulations (Kappel, R. and Ishengoma, E. K., 2006)

Recommendations

2.3.10. Creation of an MSME Authority: In mitigation of the challenges and constraints observed, it has been recommended that an MSME Authority be created as a single-point administrative structure cutting across administrative and financial barriers, and able to implement policy and other initiatives affecting MSMEs (MOFPED, July 2008).

2.3.11. Creation of a national policy on the informal sector: Because these constraints limit substantially the productive capacity and efficiency of the informal sector in Uganda, Government efforts to promote the private sector may not achieve much before the informal sector is transformed, starting with the formulation of a national policy on the informal sector including clearly spelt out incentives and support for the sector. (Muwonge A., et al, 2007)

2.3.12. Institutionalisation of a public-private partnership to foster dialogue between government and business associations and oversee the implementation of recommendations made to address constraints and barriers faced by MSMEs (MOFPED, July 2008)
2.3.13. **The need for training** It is recommended that short courses should be arranged for food vendors covering management skills and the penal code (Hyuha, Theodora S., 2003)

2.3.14. **Promote complementary services** It is recommended child day-care facilities be provided for food vendors to protect children from the risk of burns so as to enable mothers concentrate on their business (Hyuha, Theodora S., 2003)

2.3.15. **Increasing MSE’s access to differentiated markets**: Stakeholders seeking to address the problems faced by MSEs in Uganda should introduce measures such as subcontracting arrangements, subsidizing MSE participation in trade fairs, and joint marketing, in order to increase MSEs' access to differentiated markets (Ishengoma, E. K. and Kappel, R., 2008).

2.3.16. **Upgrade productive assets and integrate MSEs in global value chains**: In order to improve performance, MSEs should upgrade their productive assets and also get integrated in global value chains so as to obtain better access to technology, knowledge, skills and export markets (Ishengoma, E. K. and Kappel, R., 2008).

2.3.17. **Formalisation of women businesses**: In order to ease entry of women businesses into the formal economy, a more radical approach to deregulation and reform of the Companies Act and the Chattels Transfer Act should be undertaken. (Amanda Ellis, Claire Manuel, C. Mark Blackden, 2006)

2.3.18. **Women’s rights to land**: In addition to amending the Land Act, the Succession Act, and the Divorce Act to give women enhanced rights over land, arrangements should be put in place to enable women enforce the rights they have (Amanda Ellis, Claire Manuel, C. Mark Blackden, 2006)

2.3.19. **Women access to justice**: Legal aid and paralegal projects should be enhanced to give business women operating businesses accessible advice and practical guidance about their rights and how to enforce them. In addition, the Center for Arbitration and Dispute Resolution’s work should be expanded to include an outreach role, working with Local Council Courts to train their members in mediation techniques for commercial dispute resolution (Amanda Ellis, Claire Manuel, C. Mark Blackden, 2006).

2.3.20. **Involve informal enterprises in decision making**: The informal sector should be represented at all decision making levels in government and affirmative regulatory policies that enhance protection of informal enterprises should be introduced (Global Distance Learning Centre, UMI, 2005).

2.3.21. **Constraints faced by street vendors** should be addressed by all stakeholders with the government playing a triple role of partner, facilitator and catalyst. (WIEGO (Women In Employment Globalising and Organising), 2003)

2.3.22. **Reform land allocation, zoning and building regulations in the cities**: In order to create space for small businesses, government should reform land allocation, zoning and building regulations in the cities.

2.3.23. **Support MSEs efforts to acquire credit, equipment and services**: Government should support efforts of small businesses to acquire loans, and equipment to improve their products and services. In addition Government should also assist them access training (particularly managerial training) that is part time and not tied to academic qualifications. (International Development Research Centre, Ottawa, Canada, 1993)

2.4. **Key policies and infrastructure**

2.4.1. **Market dues and methods use to collect them** are discouraging HEs from participating in petty trade. The amounts levied, which include unofficial margins, have become too high, unaffordable and –a pain to traders and peasants‖, thereby discouraging low income people from participating in petty trade and produce marketing (Kyasiimire, C., and Otim, P. O., 2004).
2.4.2. **The best investment strategy in pro-poor growth:** In pursuit of pro-poor growth, the best investment strategy to emphasize is the one that promotes the production of tradable goods, particularly those that have the greatest potential to increase the participation of poor people in growth (Okidi John, et al., 2005).

2.4.3. **The need for a new wave of reforms:** The slow down in economic growth during the late 90s into the 2000s, the deepening inequality, and the failure to sustain rapid poverty reduction implies that a new wave of reforms is necessary to induce high rates of savings, investments, exports, domestic revenue, and factor productivity (Okidi, J. A., Ssewanyana S., et al., 2005).

2.4.4. **Access of public health services by the poor:** Six years after the launch of PEAP and three years after the launch of HSSP, there is evidence to show that utilization of public health facilities by socially vulnerable groups had increased (Ssewanyana, S., Nabyonga, O. J., et al (2004).

2.4.5. **The tax burden experienced under the local government tax system** is significantly greater for small enterprises than it is for larger enterprises. It has been concluded that the local government tax system is biased against the poor, distorts prices, and discourages creation of informal enterprises.

2.4.6. **Measures recommended to ease formalisation of enterprises** include the following: (a) Creation of a one-stop-shop for registration of businesses in order to reduce registration procedures and costs. (b) Restructure of the national tax system. (c) Introduce informal enterprises modules in vocational training programs, incorporating topics focusing on improvement of worker capabilities. (d) Creation of informal-formal sector forward linkages, ensuring that actors do not add value in the linkage chain are discouraged by facilitating the creation of direct links between value adding informal and formal enterprises. (Kappel, R. and Ishengoma, E. K., 2006)

**Recommendations**

2.4.7. **Standardise collectable taxes and Introduce Tax Education for the masses:** In order to prevent tax collection methodologies from escalating the incidence of poverty, arrangements should be put in place to (c) Standardise collectable taxes in order to eliminate arbitrariness (a) Educate the masses about the types and purpose of taxes they are expected to pay, and (b) Stop the unfair practice of making peasants pay market dues before they have sold articles they have brought to the market (Kyasimire, C. and Otim, P. O., 2004).

2.4.8. **Increasing the participation of poor people in pro-poor growth initiatives:** In order to increase the participation of poor people in pro-poor growth initiatives, it is necessary to refocus domestic investment incentives that have in the past tended to favour the production of non-tradable goods (Okidi John, et al., 2005).

2.4.9. **Sustainability of pro-poor growth:** In order to realise long-term sustainability of pro-poor growth, it is necessary to put in place policy measures and programs that enhance the participation of the poor people in growth, particularly through increased returns to the main assets that they employ in the primary sectors where they are active (Okidi, J. A., Ssewanyana S., et al., 2005).

2.4.10. **In order to address the challenge of limited financial products**, it is necessary to build the capacity of MFIs to enable them develop products capable of satisfying the diverse production and consumption needs of the poor (Okurut, N. F., et al., 2004).

2.4.11. **In order to enhance the capacity of MFIs to design policies,** procedures and products that meet the practical and strategic gender needs of the poor people, it is necessary to support them with gender sensitive capacity building programmes (Okurut, N. F., et al., 2004).
2.4.12. **Utilisation of public health facilities by the poor:** Six years after the launch of PEAP and three years after the launch of HSSP, there was evidence to show that utilization of public health facilities by socially vulnerable groups had increased (Ssewanyana, S., Nabyonga, O. J., et al., 2004).

2.4.13. **Market dues and related taxes should be replaced by user fees** earmarked for improving market place infrastructure, and the general trading environment including weights and measures. In this case user fees would be based on ownership of a place (stall) in the market and not on a tax rate per commodity except for livestock which is based on other factors such as sanitation which does not apply to farm produce and other consumer goods (Bahigwa, G., Ellis, F. et al., 2004).

2.4.14. **Abolish parish dues and other charges that occur outside the market** as the cost of collecting them is far higher than the revenue they seek to collect (Bahigwa, G., Ellis, F. et al., 2004)

2.4.15. **Since registration and license fees are two different things,** small businesses should only pay a nominal administrative fee for registration rather than a tax in the form of a business license (Bahigwa, G., Ellis, F. et al., 2004).

2.4.16. **Policy actions recommended for enhancing the role of trade in reducing poverty are:** (a) improved transport and marketing infrastructure (b) policies that promote employment and industrial development and (c) targeted government interventions to reduce poverty among non-working households (Morrissey, O., Rudaheranwa N. and Moller L. 2003).

2.5. **Institutions, programs and projects**

2.5.1. **The existence of MSE support institutions in Uganda** has not helped to create an effective support system and the institutional framework for MSEs is too fragmented to offer effective service (MOF, 2008).

2.5.2. **Restructuring MSE associations** with a view to making them more responsive to members’ needs (MOF, July 2008).

2.5.3. **There is general scepticism to self-employment as a career option** even among TVET (Technical & Vocational Education and Training) students. (Halldan Farstad 2002).

2.5.4. **Entrepreneurship education** is more relevant for higher to post-secondary TVET students than it is for younger children at secondary school (Halldan Farstad 2002).

2.5.5. **There is lack of effective Government policies and institutions** for MSME development (MTTI and UNIDO, 2004).

**Recommendations**

2.5.6. **Preparation of students for self-employment:** In the context of weak African economies, characterised by high formal unemployment and poverty figures, a growing informal sector and high school dropout rates both at primary and at secondary level, preparation of students for self-employment in the informal sector should start as early as possible (Halldan Farstad 2002).

2.5.7. **The development of positive attitudes to self-employment** and awareness of this career option should be the first step in the process of providing a basis for income-generating activities to early school dropouts. (Halldan Farstad 2002).

2.5.8. **Government should** put in place adequate mechanisms for engaging with MSMEs and stronger linkages between universities, research institutions and the private sector (MTTI and UNIDO, 2004).
3. INVENTORY OF STUDIES AND OTHER INFORMATION SOURCES

Household Enterprises and the informal economy as a whole

3.1. Size, Economic roles and Trends overtime

3.1.1. Author: Uganda Bureau of Statistics 2006  
Title: The 2002 Uganda Population and Housing Census, Economic Characteristics  
Source: Uganda Bureau of Statistics, Kampala, Uganda

Brief description: In order to increase the utility of the census data, subject specific monographs giving detailed analytical findings of the 2002 Census have been written by the Uganda Bureau of Statistics. The report under review focuses on Economic Characteristics and contains information on the activity status, characteristics of the working population and micro and small enterprises. The report contains a chapter on MSEs (Micro and Small scale Enterprises), which is based on the data collected by the MSE Module of the 2002 Census. The primary objective of the MSE module was to give an idea of the magnitude of the sector and to provide a basis for constructing an appropriate sampling frame that could be utilised in a detailed household based business enterprise survey and other related surveys. The data provides baseline information for many studies and related surveys.

The module, which excluded enterprises engaged in primary agricultural production, classifies enterprises on the basis of the number of persons engaged in its activity. Accordingly a Micro scale enterprise (ME) is one engaging 1-4 persons, while a Small scale enterprise (SE) is one engaging 5-9 persons. The module collected data on type of business, ownership, employment and premises of an MSE operated by a member of a household in the same district.

Summary of conclusions and recommendations

The report indicates that at the time of the 2002 Census, there were 1.1 million household based micro and small scale enterprises in the country employing 1.7 million people. Out of the 1.1 million Micro and Small scale Enterprises recorded, one million (97 percent) were microenterprises. Table 1 below, extracted from the report, shows that Kampala had 10 percent of the total microenterprises recorded while for the regions, Eastern had the highest number of microenterprises with 26 percent followed closely by Central and Western with 25 and 23 percent respectively. At 17 percent, Northern region had the smallest share of all microenterprises recorded.

<table>
<thead>
<tr>
<th>Region</th>
<th>Micro</th>
<th>Percent</th>
<th>Small</th>
<th>All MSEs</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kampala</td>
<td>98,310</td>
<td>10</td>
<td>5,603</td>
<td>103,913</td>
<td>10</td>
</tr>
<tr>
<td>Central</td>
<td>256,959</td>
<td>25</td>
<td>11,018</td>
<td>267,977</td>
<td>25</td>
</tr>
<tr>
<td>Easterm</td>
<td>260,261</td>
<td>26</td>
<td>7,465</td>
<td>267,726</td>
<td>25</td>
</tr>
<tr>
<td>Northern</td>
<td>170,387</td>
<td>17</td>
<td>4,307</td>
<td>174,694</td>
<td>17</td>
</tr>
<tr>
<td>Westerm</td>
<td>230,420</td>
<td>23</td>
<td>7,338</td>
<td>237,758</td>
<td>23</td>
</tr>
<tr>
<td>Total</td>
<td>1,016,337</td>
<td>100</td>
<td>35,731</td>
<td>1,052,068</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Uganda Bureau of Statistics*

The report also indicates that of the more than 1.0 million microenterprises recorded, nearly two thirds (64 percent) were engaged in trade and motor vehicle repairs. Table 2 below, extracted from the report shows that Manufacturing had the second highest number of
microenterprises accounting for 19 percent followed by Transport, and communications in a distant third position with 6 percent of the microenterprises recorded. Accordingly 9 out of every 10 microenterprises recorded were either engaged in trade and manufacturing or they were engaged in the transport and communications industry.

<table>
<thead>
<tr>
<th>Type of Industry</th>
<th>Number of Enterprises</th>
<th>Percent Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Micro</td>
<td>Small</td>
</tr>
<tr>
<td>Trade</td>
<td>665</td>
<td>64</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>205</td>
<td>19</td>
</tr>
<tr>
<td>Trans. port. Stor &amp; Communication</td>
<td>66</td>
<td>6</td>
</tr>
<tr>
<td>Community &amp; Social services</td>
<td>26</td>
<td>3</td>
</tr>
<tr>
<td>Hotels and Restaurants</td>
<td>24</td>
<td>2</td>
</tr>
<tr>
<td>Construction</td>
<td>17</td>
<td>2</td>
</tr>
<tr>
<td>Education</td>
<td>13</td>
<td>1</td>
</tr>
<tr>
<td>Other</td>
<td>35</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>1052</td>
<td>100</td>
</tr>
</tbody>
</table>

In addition the report indicates that Northern region had the highest share of women employed in MSEs. While the majority of the MSEs were in the Wholesale & Retail Trade, Motor Vehicle Repairs industry, the Hotel & Restaurant industry employed the biggest number of females than all other industries. Transport, Storage and Communication, Construction and Fishing industries employed the least proportion of females, each having less than 10 percent of the persons engaged as females.


**Title:** Enhancing Contributions of the Informal Sector to National Development: The case of Uganda

**Source:** Economic Policy Research Centre, Makerere University Campus

**Brief description:** This study seeks to establish the size of the informal sector and its contribution to employment and incomes. The study also analyses formal-informal sector linkages and appropriate government legislative and institutional support aimed at strengthening the linkages. It also examines the reasons behind the recent growth of the informal sector and examines the feasibility of formalizing the informal sector as a strategy for bringing it into the tax net.

**Summary of key conclusions and recommendations**

The study finds that the informal sector in Uganda is a source of employment to a significant proportion of the population most of whom are women. The study also finds that the sector exists in both rural and urban areas, and that different regions in the country are characterized by particular activities of the informal sector, signifying the diversity of informal sector activities. The study shows that the contribution of the informal sector to gross output and value added is substantial and offers an opportunity for broadening the tax base.

The study identifies absence of a clear national policy for the informal sector to be a major constraint in the informal sector and identifies the other constraints to be inadequate skills, limited access to finance, inadequate access to reliable information about markets opportunities and sources of competitive technologies, irregular inadequate and a high cost of utilities and lack of critical inputs such as raw materials. The study concludes that these constraints limit substantially the productive capacity and efficiency of the informal sector in
Uganda. The study concludes that inspite of its commitment, government’s efforts to promote the private sector may not achieve much before the informal sector is transformed, starting with the formulation and implementation of a national policy on the informal sector including clearly spelt out incentives and support for the sector.

**3.1.3. Author:** Hyuha, Theodora S. (2003)
**Title:** Poverty Alleviation Dynamics of –Toninyira Mukange‖ Business among women in Uganda: A case of Kampala and Mbage Districts
**Source:** NURRU (Network of Uganda Researchers and Research Users), Kampala

**Brief description:** The study sought to establish the factors affecting the performance of TMs (Toninyira Mukange businesses); analyse the socio-economic characteristics of the key players in TMs, and to assess the role of TMs in poverty alleviation. Toninyira Mukange is the informal business of vending cooked food, which had become very popular in urban centres mainly because with the increasing cost of living many employees including those employed in the informal sector were finding it cheaper than the food served in formal eating places. The study was conducted in Kampala City and Mbage Municipality using both structured interviews and focus group discussions.

**Summary of key conclusions and recommendations:**
The study found that TM business was dominated by women in the 20-30yr age group, more than 70% of whom were married and 60% had completed primary school. It was also found that more than 70% of the TMs were started with a capital of about UGX 50,000 (US$27) and were profitable. The main constraints faced by TMs were found to be: non-payment of bills by clients; lack of day care facilities; lack of management skills and access to credit facilities.

The study concludes that TMs make a positive contribution to the national economy through payment of taxes and poverty reduction at the household level and recommends that: short courses covering management skills, and general principals of law should be arranged for TM business owners to enable them improve efficiency. It also recommends that child day care facilities should be provided to enable mothers concentrate on their business and protect the children from the risk of burns.

**3.1.4. Author:** Constance Newman, Sudharshan Canagarajab (2000)
**Title:** Gender, Poverty, and Nonfarm Employment in Ghana and Uganda
**Source:** The World Bank

**Brief description:** The study compares trends in rural poverty by gender and sector; changes in income and labor market participation by sector and gender; and the determinants of sector participation using a bivariate probit model of participation.

**Summary of key conclusions and recommendations**
The study confirms findings from previous work linking lower poverty levels to non-farm sectors such as petty commerce, wage employment, transportation and construction, and goes ahead to explore the importance of participation in nonfarm activities to poverty reduction differences by gender during the period 1992 to 1996. The study finds that women are increasingly active in nonfarm activities and that this participation is linked to greater reductions in poverty for women than for men, noting that although literature to date had not focused on gender differences, the differences are significant and they show another important benefit of nonfarm activities.

The study concludes that non-farm activities are very important to women's welfare, observing that during the period under review, poverty among female headed-households was
The vulnerability of individuals and households to poverty is significantly lower at the end of the period and fell more rapidly in those households participating in non-farm activities.

3.2. Productivity drivers

3.2.1. Author: Simon Appleton (2001)
Source: Research Paper of the Centre for Research in Economic Development and International Trade, University of Nottingham, UK, www.nottingham.ac.uk/economics/research/credit

Brief description: The study examines the relationship between poverty and education in Uganda in the 1990s. It shows how growth in income and poverty reduction during that period was fastest for more educated households. The study disaggregates household income into earnings from three types of activities namely: farming, non-farm self-employment and wage employment. The study then analyses the direct productivity effects of education on earnings for each activity.

Summary of key conclusions and recommendations: The study finds that data from household surveys conducted during the period 1992-2000 shows that there was a marked fall in poverty in Uganda during the period and that the reduction was mainly driven by economic growth. While growth appears to have been broad based, with substantial increases in household earnings from all three income sources, the study finds that the highest growth in earnings came from non-farm self-employment with educated households benefitting more than their colleagues from the growth.

3.2.2. Author: Ibrahim Kasirye (2007)
Title: Vulnerability and Poverty Dynamics in Uganda, 1992-1999
Source: Economic Policy Research Centre, Makerere University Campus.

Brief description: The study analyses vulnerability to poverty and estimates the impact of household characteristics on vulnerability.

Summary of key conclusions and recommendations:
The study finds that vulnerability to poverty is predominantly caused by low mean consumption and recommends that efforts to reduce vulnerability among Ugandan households should place more emphasis to increasing long-term household welfare. The study also finds that education, spatial characteristics, and access to community infrastructure have a significant impact on vulnerability. In particular, the study finds that reduction in vulnerability to poverty increases with increasing levels of education of household heads. The study also finds that in Uganda, the causes of vulnerability are similar to the causes of poverty implying that policies aimed at raising the earning capacity of poor households would also help to address both vulnerability and poverty.
The study concludes that since the causes of vulnerability in Uganda are similar to the causes of poverty, policies and studies that focus on poverty are likely to be effective in addressing vulnerability.
The study finds that access to electricity in the community allows different kinds of productive activities to be undertaken thereby reducing the vulnerability of households to poverty, and observes that in spite of a number of reforms having been undertaken in the energy sub sector in Uganda recently, less than 10 percent of households have access to electricity. The proportion of households accessing electricity for lighting increased from 6.7 percent in 1992 to 7.3 percent in 1999 and more recently to 9.4 percent in 2003 (UBOS, 2003).
3.2.3. **Author:** Akello Mary (2004)  
**Title:** Owner Managers’ personal values, and the performance of small scale industries in Uganda: A case of Kampala District  
**Source:** MUBS Annex, Bugolobi, Kampala  
**Brief description:** The study was carried out in partial fulfillment of the requirements for the award of the Masters of Business administration (MBA) Degree of Makerere University. The study seeks to investigate the effect of the personal values of an owner manager of a small business (MSE) and the performance of the enterprise. The study was carried out in Kampala District and involved 104 owner managers of MSEs drawn from all the five divisions of Kampala City. The study was prompted by the failure rate among MSEs in Uganda, and Kampala City in particular and sought to investigate the relationship existing between owner-manager's personal values and the performance of the business, which ultimately affected their survival.  
**Summary of key conclusions and recommendations:**  
The study found a significant relationship between (a) the personal values of the owner-manager of an MSE and the business strategies adopted by the MSE (b) the business of an MSE and the performance of the business and (c) the personal values of the owner manager of an MSE and the performance of the business. The study concludes that the success of any small business is dependent on the values of its owner manager since the strategies he adopts in the running of his business are determined by his personal values.

3.2.4. **Author:** Paul Tenywa Isiko (2004)  
**Title:** Marketing Networks and Organisational Performance: A case study of the Pharmaceutical Importers and Distributors in Uganda  
**Source:** MUBS Annex, Bugolobi, Kampala  
**Brief description:** The study was carried out in partial fulfillment of the requirements for the award of the Masters of Business Administration (MBA) Degree of Makerere University. The study seeks to determine the influence of marketing networks on the performance of importers and distributors of pharmaceutical products in Uganda. The study was prompted by the observation that the number of importers and distributors of pharmaceutical products operating in Uganda today are fewer than was the case 10 years ago. It had also been observed that a number of pharmaceutical companies had closed down while others had merged in order to form larger entities with a view to remaining competitive.  
**Summary of key conclusions and recommendations:**  
The study finds that there is a significant positive relationship between marketing networks and the performance of importers and distributors of pharmaceutical products.

3.2.5. **Author:** Esaete Margaret (2005)  
**Title:** Quality of Record Keeping and performance in Small Business Enterprises  
**Source:** MUBS Annex, Bugolobi, Kampala  
**Brief description:** The study was carried out in partial fulfillment of the requirements for the award of the Masters of Business Administration (MBA) Degree of Makerere University. The study analyses the relationship between the quality of record keeping and performance in small business enterprises (MSEs). The study also examines the influence of managerial competence on the quality of record keeping. The study uses a sample of 165 MSEs drawn from all the divisions of Kampala and all the key sectors operating in the district.
Summary of key conclusions and recommendations:
The study finds that the quality of record keeping has an influence on the performance of a small business, with 30 percent of the variance in performance being attributed to the quality of record keeping. In addition the study finds that many MSEs do not practice quality record keeping, with as many as 66 percent not maintaining source documents and 44 percent having no ledgers. The study also finds that managerial competence has an influence on the quality of record keeping and on the performance of an MSE with 13 percent of variance in the quality of record keeping and the 45 percent of the variance in the performance of an MSE being attributed to managerial competence.

3.2.6. Author: Bewayo, Edward (1995)
Title: Ugandan entrepreneurs: Why are they in business?
Source: Internet sources
Brief description: This study investigates the form of entrepreneurship existing in Uganda and its prospects for the future. Using responses obtained from a survey of 208 small business owners drawn from the Kampala City and Masaka Municipality between October 1990 and April 1991, the study analyses the factors motivating Ugandan entrepreneurs, their willingness to take risk, and the involvement of family members in family business.

Summary of key conclusions or recommendations:
The study finds that the majority of Ugandan entrepreneurs are motivated by monetary considerations in their decision to go into business. However, the study also finds that most Ugandan entrepreneurs would not exchange business ownership for jobs even if jobs became available and paid as well as their businesses. The main reason for this tendency was found to be the independence that Ugandan entrepreneurs enjoy as business owners. Accordingly, while Uganda entrepreneurs become entrepreneurs for monetary reasons, many of them chose to remain entrepreneurs because of the freedom that entrepreneurship accords them.

3.3. Constraints in the formation, operation and growth of HEs
3.3.1. Author: MFPED, Discussion Paper 15 (July 2008)
Title: Enhancing the competitiveness of Micro, Small & Medium Enterprises in Uganda
Source: Ministry of Finance, Planning & Economic Development (www.finance.org)
Brief description: The study analyses the challenges and constraints that affect the performance of MSMEs in Uganda with a view to offering policy options for enhancing their competitiveness. The study is based on primary data collected in 2007 from 263 enterprises in Uganda, literature review, various Government policies and strategy documents, and other studies by various international institutions.

Summary of key conclusions and recommendations:
Key findings: The study finds that the main constraints affecting MSMEs in Uganda include access to electricity, finance, telecommunications and quality of transportation. The study also finds that in addition to the foregoing, MSMEs experience difficulty in accessing appropriate technology, skills and education, business information and land, and that as a result of these constraints MSMEs find it difficult to develop their productive capacities and maximise their competitiveness.

The study observes that the existence of supporting institutions in Uganda has not yielded an effective support system, noting that most associations do not appear to have adequate outreach and that the institutional framework for MSMEs is fragmented with many institutions unable to offer effective service.

The study concludes that in order to achieve a significant improvement in competitiveness for informal sector enterprises, it is necessary to put in place an enabling environment including
infrastructure development, institutionalized principles of corporate governance, a stable fiscal and monetary environment with reasonable rates of interest, and a conducive climate for business.

**Recommendations:** The study recommends a two pronged approach to enhance competitiveness of MSMEs namely:

(a) Creation of an MSME Authority as a single-point administrative structure that cuts across administrative and financial barriers, able to implement policy and other actions affecting MSMEs. The main justification for this innovation is the belief that coordination among several ministries and local governments is necessary to achieve the outcomes of a well thought out strategy for MSME development and that this inter-institutional coordination framework would provide the answer.

(b) Institutionalizing a public-private partnership to implement the following recommendations and foster dialogue between government and participating business associations:

- Adopt principles of corporate governance to guide MSME business operations in order to realise transparent and professional business practices;
- Improve MSME access to finance through a framework that promotes savings mobilisation and allows MSMEs to collateralise their assets;
- Promote clustering among businesses to enable them to better address supply and demand constraints, enhance productivity and innovation;
- Develop appropriate business development services to address training and skills needs of MSMEs;
- Promote research and linkages with suppliers of appropriate technology
- Improve information flow to MSMEs regarding available opportunities;
- Restructure MSME associations with a view to making them more responsive to members' needs and aspirations.

3.3.2. **Author:** Ishengoma, Esther K. and Kappel, Robert (May 2008)
**Title:** Business Constraints and Growth Potential of Micro and Small Manufacturing Enterprises in Uganda
**Source:** Internet sources ([www.giga-hamburg.de/workingpapers](http://www.giga-hamburg.de/workingpapers))

**Brief description:** Based on its analysis of data collected under a survey of 265 MSEs during the months of March and April 2003, the study seeks to examine the extent to which the growth potential and performance of MSEs are affected by business constraints in particular: investment in productive assets; high tax; and access to markets and productive resources. The study uses regression models as it tries to control for owners’ attributes and firms’ characteristics.

The study is prompted by the realization that MSEs play a big role in the development of Uganda and given the role played by MSEs in Uganda, the study takes the view that it would be helpful to conduct a study that specifically addresses how the business environment affects the growth potential of an MSE. In line with Reunikka and Svensson’s (2001) postulate that the rate of economic growth is positively associated with the rate of investment, the study observes that factors in the business environment which constrain investment could in turn be the root cause of the poor economic growth of the manufacturing sector in Uganda and that the removal of the impediments to entrepreneurship could be a powerful mechanism for growth.
Summary of key conclusions and recommendations:
The study finds that MSEs’ growth potential is negatively affected by limited access to productive resources (finance and business services), high taxes, and lack of market access. The empirical findings reveal that business constraints (investment obstacles, limited access to market and productive resources, and high tax) hinder the growth potential and performance. MSEs which reported that limited access to productive resources is not a major constraint are those whose index values on this variable are below an average index value. The reverse is true for those which reported otherwise. MSEs which reported that limited access to market is their major problem attained lower turnover. Furthermore, when MSEs experience limited access to market, their growth potential is likely to decrease. Thus, access to market is an important factor for MSEs to perform better and to grow. Managers in MSEs may need to position their firms by producing relatively high quality products and undertaking joint marketing strategies in order to penetrate differentiated market segments. From the policy perspective, stakeholders trying to address the problems faced by MSEs in Uganda need to undertake different measures (for example, subcontracting arrangements, subsidizing MSE participation in trade fairs, joint marketing) to increase their access to differentiated markets.

When MSEs face severe investment obstacles that limit their ability to upgrade their productive assets, they perform poorly. Policy makers and other stakeholders need to encourage MSEs to upgrade their productive assets. This can be done by enhancing the availability of production equipment and spares in the local market and through the provision of technical services at favorable rates.

On the other hand, MSEs may need to try to become integrated in global value chains in order to obtain better access to technology, knowledge, managerial skills, and also export markets (Isengoma and Kappel 2007; Keller 2004; Morrison, Pietrobelli and Rabellotti 2006; Antràs and Helpman 2004). MSEs may also have to be trained regarding the need to upgrade their productive assets. The results show that access to productive resources is very important for a business to grow. MSEs’ growth is positively associated with access to business services and finance, as these resources may enable a firm to produce the right product.

MSEs need access to market at low transaction costs—hence increasing efficiency and sales—and to technical information and knowledge through networking. High taxes limit the performance and growth potential of MSEs in several ways. They reduce their internal sources of financing and discourage them from expanding, formalizing and, hence, participating in subcontracting arrangements.

3.3.3. Author: Amanda Ellis, Claire Manuel, C. Mark Blackden (2006)
Title: Gender and Economic Growth in Uganda - Unleashing the Power of Women
Source: The World Bank
Brief description: The study assesses the legal and administrative barriers faced by women, as identified by the Bank's Foreign Investment Advisory Service (FIAS) and the International Finance Corporation's (IFC) Gender-Entrepreneurship-Markets Unit. The study considers the relationship between gender and economic growth in Uganda in the context of promoting women's participation in business and entrepreneurship, and recommends gender-related legal and administrative reforms to address barriers identified.
Summary of key conclusions or recommendations:
The study finds that men and women both play substantial, albeit different, economic roles in the Ugandan economy, with each group contributing about 50 percent of GDP. The study also finds that there is considerable potential for economic growth that exists, if Uganda were to unleash the power of women, and support their full economic participation in the private sector.
According to the study’s findings, most female workers in Uganda are either self-employed in the informal sector or are unpaid family farm workers, with women accounting for 80 percent of all unpaid workers.

The study identifies specific legal and administrative barriers to investment that have a gender dimension and makes the following recommendations:

- **Formalisation of business**: The study finds that barriers to formalization of business have a disproportionate effect on women entrepreneurs and recommends a more radical approach to deregulation and to reform of the Companies Act and Chattels Transfer Act than is currently being considered under the Law Reform Commission in order to ease the entry of women entrepreneurs into the formal economy;

- **Access to land**: The study finds that land allocation practices are a fundamental constraint to women entrepreneurs, especially as they affect access to credit, and recommends that in addition to amending the Land Act, the Succession Act, and the Divorce Act to give women enhanced rights over land, arrangements should be put in place to enable women enforce the rights they have;

- **Access to credit**: The study finds that women face barriers in using non-land assets as collateral because of the undeveloped personal and moveable property securities law, and recommends that the ability of women to use non-land assets (such as stock or machinery) as collateral should be enhanced by putting in place a coherent legal framework for moveable personal property securities;

- **Access to justice**: The study finds that poor people in general, and women in particular, lack information about their legal rights and access to mechanisms to enforce them and that reliance on the Local Council Court system to resolve commercial disputes puts women at a particular disadvantage because of traditional attitudes and the application of customary law. The study recommends that legal aid and paralegal projects should be enhanced to give women operating businesses accessible advice and practical guidance about their rights and how to enforce them. It also recommends that the Center for Arbitration and Dispute Resolution’s work should be expanded to take on an outreach role, working with Local Council Courts to train their members in mediation techniques for commercial dispute resolution.

3.3.4. Author: Global Distance Learning Centre, UMI (May, 2005)
Title: Urban Informal Sector in Uganda
Source: UMI, Kampala

Brief description: This is a paper presented during a Labour Market Issues Course at the UMI Global Distance Learning Centre, in April/May 2005. The paper examines factors that have contributed to the expansion of the urban informal sector in Uganda, the achievements realised, and constraints faced by the sector.

Summary of key conclusions or recommendations:
Conclusions
Affirmative action by government in favour of the informal sector is likely to result in an increase in (a) the sector’s capacity to absorb employable labour force (b) the sector’s access
to finance and non-finance services (c) Stimulation of technology development and transfer in the sector and (d) Improved access to information that is vital for the growth of the sector.

**Recommendations**

- The informal sector needs to be well organized and represented at all decision making levels in government;
- There is need to improve informal enterprises’ access to finance at low interest rates to enable them expand their businesses and increase employment;
- There is need for informal enterprises to invest in improved technology in order to produce competitive high quality goods and services;
- Government should introduce affirmative regulatory policies that enhance social protection for informal enterprises.

3.3.5. **Author:** WIEGO (Women In Employment Globalising and Organising) (2003)

**Title:** Street Vending in African Cities: A synthesis of empirical findings from Kenya, Cote D’ivoire, Ghana, Zimbabwe, Uganda and South Africa

**Source:** World Bank, (www.worldbank.org)

**Brief description:** The paper assesses the business/environment constraints faced by street vendors, and the responses made by various stakeholders including the vendors themselves. It is based on case studies conducted on street vending in selected African countries including Uganda, Kenya, Zimbabwe, Ghana, and South Africa. The Ugandan study covered Kampala City and its sample was drawn from the vendors operating in St. Balikuddembe Market, Park Yard Market, Taxi Parks, and other streets. The case studies arose out of a World Bank invitation to WIEGO to contribute to the Bank’s 2005 World Development Report [WDR] focusing on the theme ‘Investment Climate’. The main interest for the Bank was the assessment of constraints to business growth in the informal economy, after it had been observed that businesses in the informal economy operate in unregulated and unprotected environments that were not conducive to growth.

**Summary of key conclusions and recommendations**

Findings: This study finds that street vending is an important source of income and employment providing an opportunity that minimises the impact of social exclusion for many urban residents.

The study also finds that street traders work in a hostile environment without basic infrastructure and services, but full of harassment, including beatings and confiscation of goods by urban authorities. The problems faced are both market and investment based. Market based problems include overcrowding, dwindling sales due to poor location and low purchasing power while investment based problems include lack of capital, secure site of operation, corruption, heavy taxation and confiscation of goods by urban authorities. Although traders pay dues in order to operate, urban authorities do not adequately deliver the required services.

Most urban authorities’ operate on the basis of out-dated restrictive policies and regulations that emphasise the illegality of street trade. Unfortunately, many street vendors are not aware of these policies and regulations. While decentralization gives local authorities power to manage their affairs, most of them have not taken advantage of the opportunity to review and align their policies and by-laws to the prevailing situation.

In addition, there is minimal communication between street vendors and urban authorities, with only a few street vendors associations having been involved in the formulation of policies and regulations governing their operations, mainly because the vast majority of their
associations are weak and require some skills in organising and advocacy before they can make a useful contribution to the process.

Street vendors have no access to formal finance, and largely rely on their own savings, and finances from friends and relatives. In cases where they have organised into groups, they are able to pool their resources through Revolving Saving and Credit Associations [ROSCAs]. The street vendors find these institutions easy to deal with as opposed to formal Microfinance Institutions [MFIs] whose requirements and interest rates have, overtime -approximated what the formal banking systems require thereby pushing informal traders away]].

Security is a major issue of concern for street traders, particularly women. In many urban centres, crime threatens traders’ lives and goods, and their customers’ lives and properties. Unfortunately most urban authorities view street traders as criminals and do not always respond to their security concerns. The study finds that women traders in both streets and markets lose their goods to thieves and con-persons. Instead of assisting them, urban authorities tend to harass them whenever there is an increase in criminal activities around their areas of operation.

The paper finds that women’s participation in trade is influenced by several factors including: culture, their reproductive role, low levels of education, lack of venture capital and gender insensitive policies of urban authorities that do not recognise the need for child care facilities, and integrated planning that would allow women to trade around their residential areas.

**Conclusion and recommendations:** There is need for Government through Local Authorities to address policies, regulations and organisation of street vending. The South African experience provides a good lesson about what constitutional and policy response can do to support street trade and the informal economy in general.

In collaboration with other development partners, government should strengthen street vendors associations to enable them lobby for their interests in the context of economic policy reforms taking place in the country. This may require among others, the creation of effective communication channels for exchanging information between vendors, urban authorities and other development partners.

The study also recommends that government should assist in organising street vendors noting that organised entities can contribute to effective provision and management of vending sites as is happening in some areas in South Africa. In addition the study notes that organised groups could provide a convenient platform for the delivery of business development services (BDS) as well as financial services. As is the case of Johannesburg, traders can form voluntary crime surveillance groups that ensure security within their areas of operation.

The study also recommends that since street vendors are many and operate in different sites making it difficult for urban authorities to employ enough officers to manage the activity, self management supported by urban authorities should be encouraged.

Overall, the study finds that the investment climate constraints that street vendors face mainly include poor policies and regulations, lack of infrastructure, BDS and other services including child care, storage facilities, water and sanitation, refuse collection and lack of effective organisation among street vendors, and recommends that these issues should be addressed by all stakeholders with the government playing a triple role of partner, facilitator and catalyst.
3.3.6. Author: International Development Research Centre, Ottawa, Canada (1993)
Title: Small Scale Enterprise Sector, Uganda
Source: Internet based

Brief description: The study examines how the small scale enterprise sector operates in Kampala and Jinja, the largest cities in Uganda at the time, with special interest in the locational aspects of the small scale enterprise sector, including: determinant factors of location (e.g. urban land competition); locational relationship to other urban land uses; influence of urban authorities in determining location of SSEs; and contribution of the sector to the present urban land use structure.

The study covered small scale enterprises (SSEs) located within an 8-km radius from Kampala city centre, and a 5-km radius from the centre of Jinja and obtained its data and information from existing comparative studies, government statistical sources and, especially, interviews with entrepreneurs themselves. The study examined the location of small scale enterprises, their role in providing goods and services to the population, how they acquired the necessary skills to do their work, and the problems they faced in operating their businesses. The study's main focus was: metal works; motor vehicle repair; wood works and carpentry; and leather shoemaking and repair.

Summary of conclusions and recommendations: The study found that the exercise of land use zoning made no provision near the city centre for SSEs. The exercise tended to banish SSEs to the periphery, where services and infrastructure are poor, and sometimes zoned them out of existence altogether, in spite of the fact that the majority of the urban population (low and medium income) relied on SSEs as their sole source of goods and services.

The study also found that small scale business owners acquired their skills through informal sources such as apprenticeships and self-learning. However, this type of training was limited to production, and did not cover the skills required to ensure the smooth operation and expansion of their businesses. The entrepreneurs expressed a keen interest in acquiring additional technical skills. The study also found that SSEs were hampered by lack of capital, heavy taxes and harsh regulations.

The study recommends that government should reform land allocation, zoning and building regulations in the cities with a view to creating space for SSEs; and should support efforts of SSEs to acquire loans, and equipment to improve their products and services. The study also recommends that government should assist SSEs access training (particularly managerial training) that is part time and not tied to academic qualifications; and, in general, give the SSEs a degree of respect that is commensurate with their role in the economy.

Environment and support affecting HEs

3.4. Key policies and infrastructure

3.4.1. Author: MFPED, Poverty Monitoring and Analysis Unit, Briefing Paper 7(March, 2008)
Title: The Potential and Problems of Small Scale Enterprises in Uganda
Source: Ministry of Finance, Planning & Economic Development (www.finance.org)

Brief description: Based on a recent survey of 263 MSMEs representing various sectors of the economy, and all four regions of the country, the paper analyses the main sources of assistance received by MSMEs; the effectiveness of the current institutional support framework and mechanism, and strategies used in other countries to enhance the institutional framework for supporting the growth of MSMEs. The paper relies on the findings of the
MSMEs survey as well as the UBOS Uganda Business Inquiry to identify the constraints affecting the development of MSMEs in Uganda.

**Summary of key conclusions and recommendations**

On the basis of the survey findings, the paper concludes that the existence of support institutions has not guaranteed the effectiveness of the whole support system, noting that even where there is a range of support institutions, effective financial and non-financial support is often not available. The study finds that while there exists a diversity of associations, the institutional framework is fragmented and lacks coordination, with many of the institutions unable to offer effective service to its members. Quoting from an Economic Commission for Africa (ECA) study, the paper observes that a successful framework should include: stable fiscal and monetary setting with reasonable interest rates; comprehensive policies that minimize the costs of business licensing and registration while safeguarding public interests; and policies that facilitate business transactions such as infrastructure development. The paper also observes that international best practice demands that such a framework should adopt group based support services, with service providers located in close proximity of their clients, and adequately coordinated under a properly organized net work of organizations involved in providing such support.

In view of its findings, the study recommends the establishment of an MSME authority to be known as the Small and Medium Enterprise Authority (SMEA) with the objective of creating a powerful single-point administrative structure that can cut across administrative and financial barriers, and be able to implement policy and other actions relevant to MSMEs effectively.

The study also recommends that efforts to improve the business climate and competitiveness of the MSME sector should be implemented across a broad front, with physical investments in infrastructure complemented by MSME specific regulatory reforms and also by a careful monitoring of service delivery to increase pressure for actual change on the ground.

Finally the study recommends that government should work together with civil society organizations and development partners to develop a clear strategy to mainstream support for the MSME sector so that it can play a better role in the development process, create jobs, reduce poverty, generate tax revenue and, above all, enhance household incomes.

3.4.2. **Author:** Kyasimire, Clare and Otim, Peter O. (2004)

**Title:** Poverty reduction and the challenges of a decentralized taxation system: The case of tendered collection of market dues in Masindi and Jinja Districts

**Source:** NURRU (Network of Ugandan Researchers and Research Users), Kampala

**Brief description:** The study seeks to analyse the impact on informal enterprises and the rural poor in general, of revenue collection through tendering. It also seeks to identify the challenges faced by stakeholders in tax administration and recommends possible improvements in revenue collection methods with a view to minimizing negative impacts on the poor. The study was conducted in Masindi and Jinja Districts, with Masindi presenting characteristics of a rural setting and Jinja the urban setting.

**Summary of key conclusions & recommendations:**

On the basis of responses received in the survey, the study concludes that tendering of the collection of market dues has caused additional burdens to the poor mainly because the amounts levied, which include the unofficial margin, have become too high, unaffordable and a pain to the traders and peasants, thereby discouraging low income people from participating in petty trade and produce marketing.

In order to prevent tax collection methodologies from escalating the incidence of poverty, the study recommends that arrangements should be put in place to: Educate the masses about the
types and purpose of taxes they are expected to pay; Stop the unfair practice of making peasants pay market dues before selling the articles they have brought to the market; Standardise collectable taxes in order to eliminate arbitrariness and panelise tax collectors who extort money from traders; Open channels of dialogue between traders, tenderers and the general public.

3.4.3. Author: David S Kraybill and Bernard Bashaasha, (2006)
Title: Potential gains from geographical targeting of anti-poverty programs in Uganda
Source: Internet
Brief description: The study analyses the effectiveness of different policy approaches in the fight against poverty. Based on the understanding that anti-poverty programs could use either households or geographical area as a target, the study compares the potential poverty reduction impact of these two approaches in Uganda.
Summary of key conclusions & recommendations:
As a first step, the study developed a framework for comparing geographical and household targeting of antipoverty policies in Uganda, then estimated an econometric model of consumption using data from the Uganda National Household Survey. The estimated parameters of the consumption model were then used to simulate the poverty rate when anti-poverty policies are implemented in the two ways. In the household targeting simulations, the policies are targeted at 500,000 of the poorest households in the country. In the geographical targeting simulations, the policies are targeted at 500,000 households, both poor and non-poor, in one of the poorest areas of the country. The subsequent analysis indicates that for most policies there are moderate gains from geographical targeting. The study concludes that while the relative gains are not large, the effectiveness of many government programs in reducing poverty could be increased by targeting the poorer localities.

Title: Growth Strategies and Conditions for Pro-poor Growth: Uganda’s Experience
Source: Economic Policy Research Centre, Makerere University Campus
Brief description: This study analyses the economic strategies that have been implemented in Uganda since the country attained Independence in 1962. By focusing on what transpired during the 1990s into the 2000s, the study aims to assess the extent to which recent development strategies promoted the participation of poor people in Uganda’s growth process.
Summary of key conclusions and recommendations:
The study concludes that in pursuit of pro-poor growth, the best investment strategy to emphasize is the one that promotes the production of tradable goods, particularly those that have the greatest potential to increase the participation of poor people in growth. The study recommends that in order to increase the participation of poor people in this process, it is necessary to refocus domestic investment incentives that have in the past tended to favour the production of non-tradable goods.

Title: Distributional and Poverty Impacts of Uganda’s Growth: 1992 to 2003
Source: Economic Policy Research Centre, Makerere University Campus
Brief description: The study analyses the main sources of growth and poverty reduction in Uganda during the period 1992/93 - 2002/03, and discusses distributional and poverty outcomes of the growth strategies pursued by government during the period. The study also analyses evidence suggesting that long-term pro-poor growth could result from consistently
investing in people and physical infrastructure, especially in a policy environment that ensures efficient linkages to international markets of commodities that the poor can be facilitated to produce.

**Summary of key conclusions and recommendations:** The study concludes that while consistent pursuit of good policies was responsible for the significant dividends that propelled Uganda’s recovery from the pathetic state of the late 1970s and the early 1980s, the slowdown of economic growth of the late 1990s into the 2000s, the deepening inequality, and the failure to sustain rapid poverty reduction implies that a new wave of reforms is necessary to induce high rates of savings, investments, exports, domestic revenue, and factor productivity. The study recommends that in order to realise long-term sustainability of pro-poor growth, it is necessary to put in place policy measures and programs that enhance the participation of the poor people in growth, particularly through increased returns to the main assets that they employ in the primary sectors where they are economically active.

**Title:** Microfinance and Poverty Reduction in Uganda: Achievements and Challenges  
**Source:** Economic Policy Research Centre, Makerere University Campus  
**Brief description:** Based on the premise that Microfinance is a key policy strategy in poverty alleviation, the study discusses the challenges posed by the creation of MDIs (Microfinance Deposit-taking Institutions) in Uganda.

**Title:** Demand for Health Care Services in Uganda- Implications for Poverty Reduction  
**Source:** Economic Policy Research Centre, Makerere University Campus  
**Brief description:** The study seeks to establish whether the poor and other socially vulnerable groups are being reached by health services in Uganda. The study is based on the observation that all relevant government policies had identified ill health to be a major cause and consequence of poverty. The key Government policies found to hold this position include UPPAP (Uganda Poverty Assessment Project), PEAP (the Poverty Eradication Action Plan), NHP (the National Health Policy), and HSSP (the Health Sector Strategic Plan). The study was conceived six years after the launch of PEAP and three years after the launch of HSSP. The study also provides new quantitative evidence about the effect of individual, household and community characteristics on health care seeking decisions.

**Summary of key conclusions and recommendations:** The study found that the level of education of the household head had significant influence on the decision to seek or not to seek formal health care. In addition, the study found that the quality of health care had an influence on the decision to access the service and that women are more likely than men to utilise public health facilities.

The study came to the conclusion that six years after the launch of PEAP and three years after the launch of HSSP, there was evidence to show that utilization of public health facilities by the socially vulnerable groups had increased.
3.4.8. **Author:** Bahiigwa, G., Ellis, Frank et al (2004)
**Title:** Rural Taxation in Uganda: Implications for Growth, Income Distribution, Local Government Revenue and Poverty Reduction
**Source:** Economic Policy Research Centre, Makerere University Campus

**Brief description**
The study seeks to contribute to the process of policy change in Uganda with regard to local government taxation. From a poverty reduction enabling environment perspective, the study analyses (a) the effect of the local tax system on income distribution, resource allocation and economic growth (b) privatised tax collection (tenders) including its implementation and (c) proposals for possible reform of the local tax system.

The study investigates the tax burden experienced under the local government tax system by a sample of 138 small enterprises in six districts. The sample comprised 30 urban enterprises in Mbale town; 69 rural enterprises and 39 rural & urban market distributed across the six districts.

**Summary of key conclusions and recommendations**
The study found serious flaws in the design and practice of the local government tax system in rural areas, including serious revenue leakages in privatised (tendered) tax collection systems; negative impacts on income distribution due to the steep regressiveness of the tax systems; and harmful impacts on local economic growth due to distortion in prices of goods and services caused by local taxes and charges that differ widely between sectors, and across districts. The study also found that there was a lack of clear linkages between taxes collected and services delivered by local governments leading to tax evasion and tension in state-citizen relations.

The study found that the tax burden on the smallest enterprises was significantly greater than it was for the larger enterprises. For example in the category of rural businesses surveyed, the smallest enterprises were found to pay 47 per cent of their gross margin in taxes while the larger enterprises were paying only 5 per cent. The study concludes that the local tax system is biased against the poor, distorts prices, and discourages creation of informal enterprises.

The study also found that the existing local tax system has in-built organisational defects that lead to low levels of tax collection by local governments compared to tax collections through private tender systems, and performs poorly against all major criteria, and recommends a review limiting the number of local tax bases with a view to ensure that they are simple, transparent, and understandable by both the taxpayers and the local revenue officials alike.

The study recommends that market dues and related taxes should be replaced by user fees earmarked for improving market place infrastructure, and the general trading environment including weights and measures. In this regard the study suggests that user fees should be based on ownership of a place (stall) in the market and not on a tax rate per commodity except for livestock which is based on other factors such as sanitation, health et al that do not apply to farm produce and other consumer goods. The study also recommends that Parish dues and other charges that occur outside the market should be abolished as the cost of collecting them is far higher than the revenue realised.

The study also recommends that since registration and license fees are two different things, very small businesses should only pay a nominal administrative fee for registration rather than a tax in the form of a business license.

3.4.9. **Author:** Morrissey, O., Rudaheranwa N. and Moller L. (2003)
**Title:** Trade Policy, Economic Performance and Poverty in Uganda
Source: Economic Research Policy Centre, Makerere University Campus

Brief description: The study analyses the effects of trade on poverty in Uganda. Using a combination of analytical tools including Computable General Equilibrium (CGE), this study seeks to identify types of household have, and the types that have not benefited from trade under Uganda’s more liberal economic regime, and suggests what can be done to spread the benefits more widely.

Summary of key conclusions and recommendations:
The study recommends three main policy actions to enhance the role of trade in reducing poverty: (a) improved transport and marketing infrastructure especially in Northern Region (b) policies that address employment and industrial development, which are central to increasing incomes of urban workers. (c) targeted government interventions to reduce poverty among non-working households.

The study also recommends that government should put in place complementary policies targeting the poor in sectors or households that are marginalized from international trade.

The study also observes that some import-competing sectors are likely to face increased competition from further import liberalization, in particular as the country prepares to implement East African regional integration, and recommends that households should invest in technology to increase efficiency, and training and education to increase labor productivity.

3.4.10. Author: Ayoki, M., and Obwona, M. (2006)
Title: Trade policies and poverty in Uganda: A CGE Analysis
Source: Uganda Programme on Trade Opportunities and Policy (UPTOP)

Brief description: This study seeks to establish the effects of trade liberalisation on incomes, poverty and inequality in Uganda, exploring changes in poverty rates across household groups and at the national level. The study is carried out against a background of an exemplary performance by the Government of Uganda in dismantling trade barriers, and takes place at a time when no other study has made an attempt to examine the effects of trade policies on poverty in Uganda.

Summary of key conclusions and recommendations
The study finds that liberalisation of Uganda’s own trade policies increases poverty in Uganda because the (consumption) gains arising from declining commodity prices following Uganda’s tariff cuts are not sufficient enough to offset the decline in income faced by producers. The poverty headcount among the agriculture specialised household group actually increases as a result of trade liberalization. Poverty increases due to declining returns on agricultural land and labour, increase in prices of services and contraction of agricultural output, among other factors.

3.4.11. Author: Kappel, Robert and Ishengoma, Esther K. (2006)
Title: Economic Growth and Poverty: Does Formalisation of Informal Enterprises Matter?
Source: Internet Sources (http://mpra.ub.uni-muenchen.de/1456/)

Brief description: The study assesses various approaches adopted by different stakeholders seeking to address factors responsible for hindering the formalisation of the informal sector. The paper also assesses factors related to informality-formality trade-off and the issues of formalisation as a solution to the growth of an enterprise.

Summary of key conclusions and recommendations:
The study concludes that the quest to formalisation of enterprises needs to be addressed from different angles, viz., reducing the cost of entry to and the costs of operating in the formal
sector, increasing incentives for MSEs seeking to operate in the formal sector, reducing obstacles to the growth of MSEs, and identifying inexpensive approaches through which to enforce compliancy with government regulations.

3.5. Institutions, programs and projects

3.5.1. Author: Halfdan Farstad (2002)

Title: Integrated Entrepreneurship Education in Botswana, Uganda and Kenya, a study commissioned by the World Bank

Source: World Bank

Brief description: The study investigates the provision of Integrated Entrepreneurship Education (IEE) in Botswana, Uganda and Kenya, covering the teaching of knowledge and skills necessary to enable the individual to plan, start and manage his/her own business, delivered as an integrated part of the curriculum at an acknowledged education/training institution within the national education system. The study's main source of information was secondary data as well as responses gathered through a number of interviews with identified key informants as well as visits and studies of 2-4 relevant education institutions in each country.

Summary of key conclusions or recommendations:

Conclusions

The study established that IEE is provided as a separate subject, primarily in post-secondary TVET and in formal industrial training arrangements in all the three countries. The training is compulsory, is based on centrally developed curricula, and is delivered through traditional classroom teaching.

The study also found some innovative delivery approaches including (1) periods of mandatory work placement and (2) development of a business plan as a compulsory and examinable exercise. The study found that co-operation between training institutions and private enterprises in the preparation of curricula and delivery of training adds value to IEE, and concludes that practical experiences and exercises are more likely to succeed than traditional classroom teaching.

The study observes a general skepticism to self-employment as a career option even among TVET students and concludes that the immediate relevance of entrepreneurship education is higher in post-secondary TVET students than it is in younger children at secondary school. However the study takes the view that entrepreneurial motivation and competencies are necessary, but not sufficient to ensure successful business ventures, and that socio-cultural factors such as informal norms and traditions have an influence on the establishment and operation of business, as do conditions related to credit, networks, markets and access to various support services for MSMEs.

Recommendations

The study observes that in the context of weak African economies, preparation of students for self-employment as well as employment in the informal sector should start as early as possible and recommends that development of positive attitudes to self-employment and awareness of this as a career option should be the first step in the process of providing a basis for income-generating activities to early school dropouts.

The study also recommends that IEE should not be provided as a separate subject at any level or for any group of students at secondary school level, but certain elements should be made compulsory and integrated in other subjects such as Mathematics, Social studies and English/language. However, the study recommends that all students in TVET programmes should receive IEE as a separate subject, but closely linked/integrated with relevant vocational
training, so as to equip students with the knowledge and skills necessary for self-employment. In order to ensure that students do not prioritise other subjects higher than IEE, the formal status of the compulsory IEE for TVET students should be similar to that of the other subjects.

The study also recommends that in order to ensure attainment of efficiency and effectiveness, particular attention should be given to methods of instruction, noting that the some of the study's findings indicate that practical experiences in general are superior to traditional classroom teaching. Teacher training, including motivational elements as well as both content and methods of instruction related to IEE delivery, should be established prior to the introduction of the new provision and should comprise industrial attachment, and that as much as possible, teachers with entrepreneurial experience should be given preference in the recruitment process.

Author: MTTI (Ministry of Tourism, Trade and Industry)
Title: Report of the National Consultative Meeting on Industrial Development, Competitiveness and Policy Development
Source: MTTI (Ministry of Tourism, Trade and Industry)
Brief description: This is a report about the National Consultative Meeting on Industrial Development, Competitiveness and Policy Development held at Kampala, on 21 September 2004, and jointly organised by the Ministry of Tourism, Trade and Industry (MTTI) and UNIDO. The main themes for the consultative meeting were: (a) Industrial Development and Competitiveness in Uganda- Challenges and Opportunities in a Global Economy (b) Integrated Industrial Policy, MSME Development and Industrial Human Resource - Constraints, Challenges and the Way Forward and (c) Drivers of Competitiveness - Methodology for Industrial Competitiveness Analysis in Uganda. The report is a summary of the main issues raised and discussed by the stakeholders attending the meeting who were drawn from both the public as well as the private sector.

Summary of key conclusions and recommendations:
The meeting observed that there was lack of effective Government policies and institutions for MSME development such as technological incubators, a fund for technology, and a more visible Uganda Industrial Research Institute (U.I.R.I). The meeting also identified inter-alia finance as well as linkage building between the private sector/industry and the educational system as key challenges in the MSME sector.

The meeting recommended that Government should re-define its roles and responsibilities to include deficiencies and challenges identified in such a way as to facilitate rapid economic growth and stability. In addition, the meeting recommended inter-alia that Government should address more effectively micro-level/micro-economic conditions and prerequisites for economic change and development, including putting in place adequate mechanisms for engaging with MSMEs and stronger linkages between universities, research institutions and the private sector.

Author: Ssekimpi, Catherine N., 2008
Title: Specific Problems of the Incubator Industry: A case of Uganda
Source: CICS Secretariat, Ministry of Finance, Planning and Economic Development
Brief description: The paper, presented at the XXV IASP World Conference on Science and Technology Parks in September 2008, seeks to examine the specific challenges faced by the incubation industry in Uganda, highlighting interventions necessary in order to overcome the many challenges to the process.
Summary of key conclusions or recommendations
The paper observes that there is a high formation rate of new enterprises and a corresponding high rate of failure of newly formed enterprises. In addition to the commonly cited challenges of access to finance, market and technology, the paper identifies lack of entrepreneurial skills, technical capability and inadequate infrastructure as being key challenges among many small businesses, leading to the conclusion that incubation is one of the ways through which MSMEs could be able to grow and become competitive for private sector development in the country.

However, the paper concludes that developing incubation remains a serious challenge, outlining the following as the main constraints:
• Lack of awareness about the importance of business incubation among the public as well as the private sector, mainly because the concept has not been adequately promoted even within Government;
• Absence of an MSME policy which would have provided for MSME friendly regulations and the initial financing of the incubators
• Absence from the incubation scene of the Private Sector whose involvement is critical for mentoring new entrepreneurs as well as providing financial support for start ups
• Limited and costly access to telecommunication services, particularly the internet
• Absence of suitable financial products to support start-ups to a level where they would be able to attract risk capital. This means that incubators have limited start up MSMEs that they can work with;
• The widespread culture of informality among MSMEs, which restricts the demand for incubation, since access to the service would inevitably bring the enterprise in contact with formal structures;
• Absence of appropriate infrastructural facilities such industrial parks, export zones business villages, and serviced industrial

Author: Sander, Cerstin (2003)
Title: _Less is More‘, Better Compliance and Increased Revenues by Streamlining Business Registration in Uganda
Source: Internet based

Brief description: This case study highlights the learning and the effects from the pilot process which makes the case of why _less is more‘ – less and more focused regulation and monitoring is better and brings fiscal gains in the form of more revenue and administrative savings – which is counter-intuitive for many national and local authorities. Government had been implementing a deregulation project. The emphasis going forward was to build on the support gained among the most senior political, administrative, and private sector stakeholders to work towards embedding Regulatory Best Practice. In tackling the complex agenda of deregulation, the project pursued a multi-pronged approach including some _quick wins_ to demonstrate the damaging effects of regulation and the potential for quick improvements. An enterprise survey to identify regulatory costs in the early stages of the project had revealed that the time and cost involved in trade licensing was one such issue. The deregulation project team chose a pilot to streamline business registration to provide a concrete example of better practice and its effects as well as to learn what it takes to win over _hearts and minds_ on changing a specific regulatory barrier. Entebbe municipality was selected as a good choice: it is the site of the country’s sole international airport and only 30km from downtown Kampala but offers a smaller and simpler starting point than the capital.
The result of the pilot is a much simplified system of registration which has increased registration compliance and fee revenues while reducing the cost of compliance and also of the administration of the registration.

**Summary of key conclusions or recommendations:**
The policy lessons identified from the streamlined business registration include:
(a) When they are faced with non-transparent and lengthy processes, MSMEs prefer to remain unregistered or not to renew their licenses in order to avoid cost and exposure to potential hassle by the authorities;
(b) Better public information and streamlined business registration leads to better compliance and increased fee revenues even at lower fees per registration as well as a steadier revenue flow for the registrar;
(c) A streamlined process reduces the burden on businesses by eliminating non-essential processes from the process thereby reducing the potential for bribe requests;
(d) Streamlining business registration reduces the regulatory burden by increasing voluntary compliance and by prioritising monitoring and enforcement activities;
(e) Information and education among businesses is important to raise awareness of obligations and rights to improve compliance and reduce the opportunity for bribes;
(f) Education and training among staff of regulatory bodies is important to improve the relationship with businesses and helps to improve compliance;

**Conclusions**
The study concludes that it is critical to work with and educate all levels of authority including local government. It also concludes that a streamlined process combined with better informed businesses is central to better compliance and monitoring of implementation by the authorities and that attitude change on the part of the authorities towards businesses will improve their interaction and result in better compliance. The study also observes that while fee revenues increased, compliance costs for businesses went down and the cost and work loan on the authorities also went down, as did the opportunity for corruption since stages of approval were reduced to a minimum.
A Descriptive Overview of Non-Farm Household Enterprises in Uganda 1999-2006

by Haroon Bhorat
A Descriptive Overview of Non-Farm Household Enterprises in Uganda 1999-2006

Introduction

When measured against its per capita GDP growth rates, the Ugandan economy remains one of the key long-run economic success stories within Sub-Saharan Africa, over a sustained period of time. Hence, the data show that the economy recorded an annual average growth rate of 8.3 percent over the 1992-2006 period (Fox 2009), with the secondary and tertiary sectors in particular driving this overall growth rate. The purpose of this study is to understand how the labour market may have changed during this growth period in general, with a specific focus on the non-farm household enterprise (HE) segment of the labour market. The existence of household enterprises is self-reported in that the household reports the existence of an entrepreneurial activity operated by one of its members.

This non-farm HE sector is possibly the fastest growing form of employment within the continent, and the initial, tentative estimates would seem to suggest that Uganda is no exception. The central purpose of the study is to interrogate this sector with a significant degree of descriptive empirical and econometric rigour, which would hopefully deliver a more nuanced and informed understanding of the sector’s current and future role in the Ugandan growth process.

This report consists of two main sections. The first section provides a descriptive overview of the non-farm household enterprise sector, assessing changes over the period 1999 to 2005 from three perspectives. These perspectives correspond to different units of analysis, with the analysis considering trends from the point of view of non-farm household enterprises, their proprietors and their households. The data utilised for the analysis below are the Uganda National Household Surveys (UNHS) of 1999/2000, 2002/2003 and 2005/2006, which are referred to here as the 1999, 2002 and 2005 surveys respectively.

Non-Farm Household Enterprises

**DEFINING NON-FARM HOUSEHOLD ENTERPRISES**

In the three surveys, households were asked slightly different questions about the presence of household enterprises. The 1999 survey asks, first, whether households have a crop farming enterprise, and then whether they have any other enterprise, essentially collecting responses on non-crop farming enterprises. The 2002 survey asks whether households have any -non-crop farming[] enterprises, while the 2005 survey asks whether households operated any -non-agricultural[] enterprises. The slight difference in questions seems to have had a major impact on the number of agricultural enterprises reported in the three surveys, with the earlier surveys covering significantly more agricultural enterprises, particularly those enterprises engaged in livestock- and poultry-rearing. In 1999, of the 2.3 million non-crop farming enterprises reported by households, 26 percent or 605 000 were located in the Agriculture, Forestry and Fishing industry. In 2002, around 273 000 household enterprises were reported to be operating in the Agriculture sector, compared to around 127 000 household enterprises in 2005, less than half the number of enterprises three years earlier.
Table 2: Household Enterprises engaged in Agriculture, 1999 to 2005

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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>29</td>
<td>577</td>
<td>605</td>
<td>9</td>
<td>263</td>
<td>273</td>
<td>10</td>
<td>117</td>
<td>127</td>
</tr>
<tr>
<td>Total</td>
<td>461</td>
<td>1 849</td>
<td>2 310</td>
<td>159</td>
<td>1 320</td>
<td>1 479</td>
<td>684</td>
<td>2 149</td>
<td>2 833</td>
</tr>
<tr>
<td>Agriculture as share of total</td>
<td>6</td>
<td>31</td>
<td>26</td>
<td>6</td>
<td>20</td>
<td>18</td>
<td>2</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Total Non-Farm Enterprises</td>
<td>432</td>
<td>1 272</td>
<td>1 704</td>
<td>150</td>
<td>1 056</td>
<td>1 207</td>
<td>673</td>
<td>2 032</td>
<td>2 706</td>
</tr>
</tbody>
</table>


At the same time, it appears that the 2002/2003 UNHS questionnaire resulted in a substantial underestimate of the number of household enterprises generally and of the number of non-farm enterprises in particular. There is no reason to expect that the total number of household enterprises declined by around one-third between 1999 and 2002, and subsequently doubled between 2002 and 2005, equivalent to an average annual growth rate of 30 percent per annum, and it appears that the problem lies within the 2002 survey. In arriving at the classification of non-farming household enterprises, all enterprises engaged in the Agriculture sector are omitted. This reduces the total number of enterprises from 2.3 million to 1.7 million in 1999, and from almost 1.5 million to 1.2 million in 2002, while reducing the number of enterprises in 2005 from 2.8 million to 2.7 million. The reduction in the number of enterprises is clearly, and expectedly, biased towards rural areas, reducing the rural sample by 20 percent compared to six percent for the urban sample in 2002. Nearly one-third of rural household enterprises in 1999 are excluded from the sample, compared to only six percent of urban enterprises. In contrast, the reduction is substantially smaller in 2005.

In summary, therefore, the number of non-farm enterprises in Uganda as reported in the three surveys falls from 1.7 million in 1999, to 1.2 million in 2002 and then rises to 2.7 million in 2005. This presents a serious problem from the perspective of the analysis in that the fluctuations in the numbers of household enterprises are too large over too short a period of time. Considering only 1999 and 2005, the number of non-farm household enterprises increased by around one million in six years, which is equivalent to an average annual rate of growth of eight percent. This seems far more reasonable and we consequently are forced to omit the 2002 data from the analysis below.  

This relatively rapid growth in household enterprises (HEs) between 1999 and 2005 has occurred amidst an expansion in real GDP averaging 6.9 percent per annum over the period (World Bank 2009), together with a rise in non-agricultural wage employment of almost 11 percent per annum over the same period, from approximately 670 000 to 1.2 million. In addition to the generally accepted centrality of household enterprises to low income country labour markets, this significant growth is particularly noteworthy within the Ugandan context. We turn now to a more detailed empirical overview of the nature of the non-farm household enterprise sample over the period 1999 to 2005.

**Enterprise Characteristics**

**Type of Enterprise:**
The somewhat vague definition of the concept ‘household enterprise’ means that there may be significant heterogeneity amongst the group of non-farm household enterprises (NFHE) identified by the surveys. Specifically, it is quite possible that these household enterprises may range from formally registered enterprises to very informal enterprises, and from

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38 The apparent inconsistencies in the 2002/2003 data has meant that results from this dataset are, for the most part, not presented. However, where 1999/2000 data is lacking, the 2002/2003 data may be analysed, although these analyses must be treated with caution.
enterprises with a stable permanent workforce to those that are confined very much to the household, drawing labour only from household members. This type of heterogeneity is important for some of the analysis presented below, given that the use of labour from outside the household would generally indicate a very different type of household enterprise activity compared to those that rely only on household members’ labour. Unfortunately, not much data is available within the surveys to determine the extent of heterogeneity, but it is possible to identify those NFHEs that do employ outside labour.

In both 1999 and 2005, the minority of NFHEs reported the use of labour sourced from outside of the household, while those that do are, for the most part, light users of hired labour (Table 3). In 1999, 45 percent of NFHEs reported using no labour from non-household members during the previous 12 months, a proportion that rises to 84 percent if one assumes that non-responses (unspecified) imply a value of zero. A further six percent of NFHEs utilised one to six person-months of outside labour, with fewer than five percent of NFHEs using more than 13 person-months of outside labour in the previous 12 months. Similarly, in 2005, 78 percent of NFHEs reported having zero employees or having hired zero people during a normal month of operation, while a further 11 percent report hiring one person. Just three percent of NFHEs reported hiring more than three people during a normal month.

<table>
<thead>
<tr>
<th>Labour during past 12 months (in person months)</th>
<th>1999/2000</th>
<th>Number</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td></td>
<td>762</td>
<td>45</td>
</tr>
<tr>
<td>1-6</td>
<td></td>
<td>101</td>
<td>6</td>
</tr>
<tr>
<td>7-12</td>
<td></td>
<td>109</td>
<td>6</td>
</tr>
<tr>
<td>13-18</td>
<td></td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td>19-24</td>
<td></td>
<td>27</td>
<td>2</td>
</tr>
<tr>
<td>25+</td>
<td></td>
<td>27</td>
<td>2</td>
</tr>
<tr>
<td>Unspecified</td>
<td></td>
<td>670</td>
<td>39</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>1,704</td>
<td>100</td>
</tr>
<tr>
<td>Number of People Hired (during a normal month)</td>
<td>2005/2006</td>
<td>Number</td>
<td>Proportion</td>
</tr>
<tr>
<td>0</td>
<td></td>
<td>2,098</td>
<td>78</td>
</tr>
<tr>
<td>1</td>
<td></td>
<td>293</td>
<td>11</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td>137</td>
<td>5</td>
</tr>
<tr>
<td>3</td>
<td></td>
<td>51</td>
<td>2</td>
</tr>
<tr>
<td>4</td>
<td></td>
<td>34</td>
<td>1</td>
</tr>
<tr>
<td>5+</td>
<td></td>
<td>54</td>
<td>2</td>
</tr>
<tr>
<td>Unspecified</td>
<td></td>
<td>40</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>2,706</td>
<td>100</td>
</tr>
</tbody>
</table>

Notes: 1. Figures within the bars refer to the median value. Figures above the lines refer to the mean value.

For the most part, therefore, NFHEs are but minimal users of labour from outside of the household, with only a minute proportion of these making more use of such labour at anything approaching intensive levels. This finding implies that HE activity is more likely to be confined to the household, to be survivalist, to be less remunerative, than would have been implied by greater use of outside labour. While it may be technically correct to distinguish between household enterprises on the basis of whether or not they make use of extra-household labour, the descriptive analysis that follows does not do so. The two reasons for this are, firstly, that the large proportion of HEs that did not specify their use of extra-household labour in 1999 would render comparisons between the two datasets meaningless without assuming that these unspecified values are zeros, and, secondly, that the proportions of HEs making intensive use of extra-household labour are so small that they are unlikely to have a real impact on the results presented below.

Location:
The Central region of Uganda was home to the largest number of NFHEs in 1999, at around 580 000 or 34 percent of the total. This was followed by the Eastern and Northern regions with 429 000 and 391 000 NF enterprises respectively, each accounting for around one-quarter of NFHEs. Just less than one in five NFHEs were located in the Western region.
Amongst urban NFHEs, the Central region was even more dominant, accounting for almost two-thirds (63 percent) of NFHEs, while the Eastern region accounted for 18 percent. Rural-based NFHEs were more evenly distributed across the four regions, with the Northern and Eastern regions accounting for around 27 percent of all rural NFHEs. The dominance of rural-based NF enterprises is clear, with rural areas accounting for more than 90 percent of all NF enterprises in the Northern region, and over 80 percent in the Eastern and Western regions. It is only in the Central region that the rural share is lower than 90 percent, at roughly one-half.

### Table 4: Distribution of Non-Farm Household Enterprises by Region, 1999 to 2005

<table>
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<tbody>
<tr>
<td></td>
<td></td>
<td>Total</td>
<td>Urban</td>
<td>Rural</td>
<td></td>
</tr>
<tr>
<td><strong>1999/2000</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central</td>
<td>580</td>
<td>34</td>
<td>63</td>
<td>24</td>
<td>53</td>
</tr>
<tr>
<td>Eastern</td>
<td>429</td>
<td>25</td>
<td>18</td>
<td>27</td>
<td>81</td>
</tr>
<tr>
<td>Northern</td>
<td>391</td>
<td>23</td>
<td>8</td>
<td>28</td>
<td>92</td>
</tr>
<tr>
<td>Western</td>
<td>305</td>
<td>18</td>
<td>11</td>
<td>20</td>
<td>85</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,704</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td><strong>75</strong></td>
</tr>
<tr>
<td><strong>2005/2006</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central</td>
<td>1,065</td>
<td>39</td>
<td>59</td>
<td>33</td>
<td>63</td>
</tr>
<tr>
<td>Eastern</td>
<td>523</td>
<td>19</td>
<td>13</td>
<td>21</td>
<td>83</td>
</tr>
<tr>
<td>Northern</td>
<td>590</td>
<td>22</td>
<td>16</td>
<td>24</td>
<td>82</td>
</tr>
<tr>
<td>Western</td>
<td>528</td>
<td>19</td>
<td>12</td>
<td>22</td>
<td>84</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,706</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td><strong>75</strong></td>
</tr>
</tbody>
</table>


Between the two surveys, the number of NF enterprises grew rapidly, particularly in the Central and Western regions: in the former, the number of NF enterprises grew by nearly half a million, from 580,000 to almost 1.1 million, while in the latter it nearly doubled from 305,000 to 528,000, equivalent to annual growth rates of almost 11 percent and ten percent respectively. Consequently, by 2005 the Central region had extended its share of NFHEs, to nearly two-fifths (39 percent). The Western region, in turn, had caught up with the Eastern and Northern regions, accounting for 19 percent of all NF enterprises. The dominance of the Central region in 2005 extends to both urban and rural NFHEs, although this is particularly marked in terms of urban NF enterprises. Growth over the period was slightly more rapid for rural-based NFHEs (8.1 percent per annum, compared to 7.7 percent for urban-based NFHEs), although the share of all NFHEs that were based in urban areas remained at one-quarter over the period.

The evidence suggests, therefore, that NFHE activity is becoming increasingly focussed in the Central Region, with much of the growth of the period concentrated there. Comparisons of the distribution of NF household enterprises with the distributions of the employed and the labour force (see Table 15 in the Appendix), reveal an overrepresentation of the Central region in the NFHE sector that grew significantly over the period. The region accounted for 34 percent of NFHEs in 1999, compared to 30 percent of the employed and of the labour force, while 2005 saw it accounting for 39 percent of NFHEs compared to 29 percent of employment. When one considers that this region accounts for at least half of total unemployment in both 1999 and 2005, it is perhaps surprising that there is not a greater involvement in NFHE activities there, although on the other hand it should be noted that open unemployment in Uganda is a ‘luxury’, in the sense that it is only the relatively well-educated and better-off who can afford to be unemployed, and these individuals are less likely to engage in NFHE activities. At the same time, the Northern region is also overrepresented in the NFHE sector, accounting for 19 percent of both total employment and the labour force,
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compared to close to one-quarter of NFHEs in 1999. In contrast, the Western region is underrepresented in the NFHE sector in both years, while accounting for a smaller proportion of the unemployed than would be expected (although unemployed numbers are very small generally).

**Sector:**

Most NFHEs in 1999 were in the wholesale and retail trade sector (51 percent), with a further 37 percent in manufacturing (Table 5).\(^{39}\) Between them, these two sectors accounted for 88 percent of all NF household enterprises, with no other sector accounting for more than five percent of NFHEs. In urban areas, manufacturing was much less common, accounting for fewer than one in five enterprises, while wholesale and retail trade was much more common than the national average, accounting for 65 percent of urban NFHEs. Consistent with the overall rural share of NF enterprises of 75 percent, all sectors were dominated by rural enterprises, with only wholesale and retail trade, community, social and personal services (CSP services, which included health, education and social work) seeing more than 30 percent of all enterprises accounted for by urban areas. Service sectors are, though, clearly biased towards urban areas, particularly considering the composition of the ‘all other’ category, which includes mining, utilities, construction, financial and other services, and private households.

<p>| Table 5: Distribution of Non-Farm Household Enterprises by Sector, 1999 to 2005 |
|---------------------------------|---------------------------------|-----------------|-----------------|-----------------|-----------------|</p>
<table>
<thead>
<tr>
<th></th>
<th>Number ('000s)</th>
<th>Distribution</th>
<th>Rural Share</th>
<th>Ave Ann Growth: 1999 – 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1999/2000</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>635</td>
<td>37</td>
<td>18</td>
<td>44</td>
</tr>
<tr>
<td>W&amp;R Trade</td>
<td>864</td>
<td>51</td>
<td>65</td>
<td>46</td>
</tr>
<tr>
<td>Transport</td>
<td>46</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>CSP Services</td>
<td>31</td>
<td>2</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>All Other</td>
<td>128</td>
<td>8</td>
<td>12</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1 704</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td><strong>2005/2006</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>861</td>
<td>32</td>
<td>19</td>
<td>36</td>
</tr>
<tr>
<td>W&amp;R Trade</td>
<td>1 449</td>
<td>54</td>
<td>60</td>
<td>52</td>
</tr>
<tr>
<td>Transport</td>
<td>133</td>
<td>5</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>CSP Services</td>
<td>167</td>
<td>6</td>
<td>9</td>
<td>5</td>
</tr>
<tr>
<td>All Other</td>
<td>95</td>
<td>4</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2 706</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>


By 2005, little had changed, despite the rapid growth in the number of household enterprises. Wholesale and retail trade remained the largest sector for NFHEs, accounting for 54 percent of all enterprises, and 60 percent of urban enterprises. Manufacturing accounted for one-third of NFHEs, meaning that, combined, these two sectors accounted for over 85 percent of all NFHEs, a proportion that is only slightly changed (downwards) since 1999. The key change, however, was the growth in the number of enterprises in transport and communication (almost tripling to 133 000 enterprises), and community, social and personal services (growing from 31 000 to 167 000 enterprises). While these numbers are still quite small, this does point to a degree of diversification in the types of activities engaged in by household entrepreneurs. Overall, though, the growth in the number of NFHEs can be largely attributed to growth in the number of enterprises in wholesale and retail trade (585 000, or 58 percent), in manufacturing (226 000, or 23 percent) and community services (136 000, or 14 percent). Growth in the number of enterprises, however, is not limited to urban or rural areas, but appears rather to be generally broad-based. Growth in the number of enterprises was most

\(^{39}\) A full breakdown of NFHEs by industry is presented in Table 16 in the appendix.
rapid over the period in the services sectors such as community services (32.1 percent per annum), transport and communication (19.4 percent) and wholesale and retail trade (9.0 percent), with manufacturing lagging slightly at 5.2 percent per annum, while the number of NFHEs outside these four sectors actually declined by almost five percent per annum.

**Enterprise Age:**
The average age of NF enterprises in Uganda was 7.7 years in 1999, and six years later, in 2005, was virtually unchanged at 7.4 years, the difference being statistically insignificant, as illustrated by the overlapping confidence intervals (Figure 1). The median enterprise age remained unchanged at four years, although this is partly related to the fact that enterprise ages are recorded as integers in the surveys making the median relatively insensitive to distributional change. Although the mean enterprise age did not vary significantly over the period, this is not true for all regions. Three areas saw decreases in the mean enterprise age, namely Northern Rural (falling from 9.1 years to 7.6 years), Northern Urban (8.3 years to 5.7 years) and Western Rural (9.1 years to 6.9 years). These declines are substantial, equivalent to roughly 30 months or two and a half years. This decline in the mean age indicates either an increase in the rate of establishment of new firms, so that there are relatively more young firms than there had been, or an increase in the rate of closure of older firms, so that there are relatively fewer older firms than there had been. Given the increase in the number of NFHEs discussed earlier, the decline in mean age is likely to be largely due to the former reason, although in either case it indicates a difference in survival probabilities of enterprises that varies according to age. Only one area saw the mean enterprise age rise significantly. The average NFHE in the Eastern Rural area rose from 6.6 years in 1999 to 7.6 years, equivalent to approximately 12 months.

**Figure 1: Age of Non-Farm Enterprises, by Area, 1999 to 2005**

<table>
<thead>
<tr>
<th>Year</th>
<th>Central Urban</th>
<th>Eastern Urban</th>
<th>Northern Urban</th>
<th>Western Urban</th>
<th>Central Rural</th>
<th>Eastern Rural</th>
<th>Northern Rural</th>
<th>Western Rural</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999/2000</td>
<td>4</td>
<td>5</td>
<td>5</td>
<td>6</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>2005/2006</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>4</td>
</tr>
</tbody>
</table>


**Notes:** 1. Figures within the bars refer to the median value. Figures above the lines refer to the mean value.
In 1999, it was only the Northern Rural and Western Rural areas where the mean enterprise age was statistically significantly different from the mean, in each case being above the national average. Median enterprise ages were, though, considerably higher than in most other areas: in the Northern Rural, Northern Urban and Western Rural areas, median enterprise ages were six, six and seven years respectively, compared to four years in most other areas. In 2005, the Northern Urban area had a significantly lower mean enterprise age than the rest of the country, at 5.7 years compared to 7.4 years nationally. It was also the only area with a median enterprise age below four years.

**Months of Operation:**
Ideally, household enterprises should be able to operate throughout the year, allowing households the opportunity to diversify their earnings in a more sustainable manner and to generate higher levels of income, in total and, possibly, on average. If households are only able to operate enterprises seasonally or for relatively brief periods of time during the year, their ability to use these enterprises to cope with shocks is compromised. Figure 2 presents the distribution of NF enterprises in terms of the number of months during the past year that they have been operational for 2005.40 Given the rapid rate of enterprise establishment up to 2005, there are a large number of newly established enterprises that were not in existence for the full 12 months of the previous year and their inclusion here may bias the results in that few would be able to say they had been operational for the full 12 months. In order to avoid this bias, all enterprises aged less than one year were omitted from the analysis.

**Figure 2: Months of the Past Year that Non-Farm Enterprises have been Operational, 2005**

![Chart showing months of operation for different regions and enterprise types](image)

**Source:** UNHS 2005/2006.

**Notes:** 1. Sample excludes NF household enterprises that have been in operation for less than one year.

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40 This question was not asked in the 1999/2000 UNHS.
It is immediately evident that the majority of firms were operational for the full calendar year and were therefore not subject to any seasonal constraints on operation. In 2005, 55 percent of all NFHEs operated for all 12 months of the preceding year, while just over one fifth each reported being operational for fewer than six months and for six to 11 months respectively. However, this pattern is not consistent across all regions of Uganda.

Generally, rural NFHEs are less likely to be operational for the full 12 months of the preceding year relative to their urban counterparts. In each of the four rural regions, 50 to 56 percent of NFHEs reported being operational for the full 12 month period. Conversely, rural NFHEs were, therefore, more likely to be operational for only part of the year, with enterprises almost evenly split amongst those operating for under six months and those operating for six to 11 months. This is not entirely unexpected given that demand for household labour is very high in rural areas during harvest periods, thereby crowding out other NFHE activities in those periods.

Overall, therefore, while the numbers of NF enterprises have grown rapidly over the six year period between 1999 and 2005, up to half of NFHEs in certain regions do not operate for the full 12 months of the preceding year. This is more likely in the rural regions, although this was also true of the Northern Urban area. Thus, while many households may have access to alternative income sources in the form of household enterprises, a substantial proportion of these households may have low effective access due to the short duration of operation and may mean that these enterprises yield fewer income benefits than may originally have been expected.

**Turnover and Profit:**

In order to be able to assess the impact of household enterprises on the welfare of their households, the NF enterprises’ turnover and profit needs to be calculated. On average, NF enterprises report turnover of 494 000 Uganda shillings, compared with reported expenses of 306 000 shillings (Figure 3). Therefore, mean profit for NF enterprises is estimated at 188 000 shillings, equivalent to 38 percent of turnover.

In terms of industrial classifications, rates of profit are highest in Mining (66 percent), Transport and Communication (64 percent), Financial and Other Services (57 percent) and Public Administration and Education (53 percent), and lowest in Construction (13 percent) and Hotels and Restaurants (21 percent). Turnover is highest, in absolute terms, in Construction, Wholesale and Retail Trade, Transport and Communication, and Public Administration and Education. The largest sector, by number of NF enterprises, namely Wholesale and Retail Trade has an average rate of return of almost one-third (32 percent). In aggregate, the primary sector, which here is comprised of Mining only, has the highest rate of return, followed by the secondary sector (46 percent) and, finally, the tertiary sector at just 35 percent.

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41 Although the 1999 survey does ask households about income from household enterprises, it does not ask this question per enterprise, nor does it ask about expenditures related to the enterprise. It is not clear to what extent the question would elicit responses closer to the concept of turnover or of profit.

42 It should be noted that the profit here does not make any allowance for capital depreciation, nor for the imputed value of the time spent by unpaid household members in NFHE activities, and is consequently not a true measure of profit.
Figure 3: Non-Farming Enterprise Turnover and Profit in the Previous 30 Days, 2005


Enterprise Proprietor Characteristics
The focus of this section is on the characteristics of the proprietors of non-farm household enterprises, and how these may be correlated with the characteristics and performance of the enterprise. This descriptive analysis will provide initial insights that will feed through to the econometric analysis presented in the second part of the paper. The analysis presented in this section uses the enterprise proprietor as the unit of analysis and, with the possibility that a given individual may be the proprietor of multiple NF enterprises, specific individuals may be counted multiple times.

Characteristics of Managers of NFHEs:
The first issue we turn to here is a characterisation of the proprietors of non-farm household enterprises and the contextualisation of their characteristics amongst labour force participants. NFHE managers are predominantly male with around 46 percent of managers being female, but are less likely to be male than individuals in wage employment (Table 6). Only 27 percent of individuals in private agricultural wage employment are female, while this is true of almost 29 percent of those in private non-agricultural and government wage employment. In contrast, NFHE managers are more likely to be male than individuals in agricultural self-employment or unpaid family work (43 percent male). These figures point to a stratification by gender within different types of employment, with males dominant in both public and private wage employment and females dominant in more marginalised sectors of the economy, particularly in agricultural self-employment and unpaid family work. In this context, it appears that the non-farm household enterprise sector represents something of a bridge between wage employment and agricultural self-employment or unpaid family work.
Uganda Country Study: Raising productivity and reducing the risk of household enterprises – Study report

Non-farm household enterprise managers are also, on average, somewhat older than other labour market participants, averaging 36.7 years in 2005. Individuals engaged in private wage employment are considerably younger – 30.0 years in non-agricultural employment and 32.8 years in agricultural employment – as are those in self-employment and unpaid family work – 34.5 years and 34.4 years respectively in agricultural and non-agricultural activities. In contrast, there is no statistical difference in mean age between NFHE managers and those in government wage employment, which may relate to an aging of the government workforce as employment in that sector becomes scarcer and those with government employment hang on to their jobs.

Table 6: NFHE Managers Compared with Other Individuals according to Employment Status, 2005

<table>
<thead>
<tr>
<th>Employment Status</th>
<th>NFHE Managers</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Private wage</td>
<td>Private wage</td>
<td>Wage</td>
<td>Self-employment/</td>
<td>Self-employment/</td>
<td></td>
</tr>
<tr>
<td></td>
<td>employment</td>
<td>employment</td>
<td>employment</td>
<td>unpaid family work</td>
<td>unpaid family work</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(non-agricultural)</td>
<td>(agricultural)</td>
<td>(government)</td>
<td>(non-agricultural)</td>
<td>(non-agricultural)</td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>45.5</td>
<td>28.8 *</td>
<td>27.1 *</td>
<td>28.5 *</td>
<td>45.9</td>
<td>57.4</td>
</tr>
<tr>
<td>Age</td>
<td>36.7</td>
<td>30.0 *</td>
<td>32.8 *</td>
<td>37.5</td>
<td>34.4</td>
<td>34.5</td>
</tr>
<tr>
<td>Years of Education</td>
<td>5.7</td>
<td>7.2 *</td>
<td>3.8 *</td>
<td>10.1 *</td>
<td>6.1</td>
<td>4.2</td>
</tr>
<tr>
<td>Household Size</td>
<td>5.7</td>
<td>5.3 *</td>
<td>5.2 *</td>
<td>5.5</td>
<td>5.7</td>
<td>6.6</td>
</tr>
<tr>
<td>Married Monogamously</td>
<td>54.6</td>
<td>44.0 *</td>
<td>44.1 *</td>
<td>62.1 *</td>
<td>53.4</td>
<td>48.0</td>
</tr>
<tr>
<td>Married Polygamously</td>
<td>20.3</td>
<td>6.9 *</td>
<td>9.4 *</td>
<td>16.5</td>
<td>17.0</td>
<td>15.5</td>
</tr>
<tr>
<td>Divorced/Separated</td>
<td>9.1</td>
<td>9.5</td>
<td>10.2</td>
<td>5.3 *</td>
<td>8.8</td>
<td>5.3</td>
</tr>
<tr>
<td>Widowed</td>
<td>7.3</td>
<td>2.8 *</td>
<td>5.2</td>
<td>2.5 *</td>
<td>5.6</td>
<td>7.0</td>
</tr>
<tr>
<td>Never married</td>
<td>8.8</td>
<td>36.9 *</td>
<td>31.1 *</td>
<td>13.6 *</td>
<td>15.2 *</td>
<td>24.1 *</td>
</tr>
<tr>
<td>Total Number ('000s)</td>
<td>2 704</td>
<td>965</td>
<td>500</td>
<td>288</td>
<td>1 427</td>
<td>7 624</td>
</tr>
</tbody>
</table>

Notes: An asterisk (*) denotes statistically significant differences between estimates for NFHE Managers and each of the other employment categories. Employment status refers to activities in a seven day reference period.

In terms of education, with 5.7 years of education NFHE managers have barely half as many years of education compared to those in government wage employment (10.1 years), and on average about 1.6 fewer years of education compared to those in private non-agricultural wage employment. Individuals in non-agricultural self-employment and unpaid family work have approximately 0.5 years more education than NFHE managers. Conversely, NFHE managers have more years of education than individuals in engaged in agricultural activities, whether private wage employment (3.8 years) or self-employment and unpaid family work (4.2 years). This finding, placing NFHE managers between non-agricultural employment, self-employment or unpaid family work, on the one hand, and agricultural employment, self-employment or unpaid family work, on the other hand, again points to the sector representing something of a bridge.

Households in which NFHE managers reside tend to be large, averaging 5.7 people. Only the households of the self-employed and unpaid family workers in the agricultural sector tend to be larger (6.6 people), while those of individuals in private wage employment, both agricultural and non-agricultural, tend to be lower at 5.2 and 5.3 people respectively. In combination, the findings on years of education and household size, as very rough proxies of (dis)advantage seem to point to NFHE managers being located broadly between wage
employment, and self-employment and unpaid family work, being worse off than the former and better off than the latter.

Finally, in terms of marital status, NFHE managers are more likely than most other groupings presented to be married, whether monogamously (55 percent, surpassed only by those in government wage employment) or polygamously (21 percent). While there is little to be said in terms of the differences in the proportions of those who are divorced or separated, or those who are widowed, there is a very clear difference in the proportion who have never been married. Just nine percent of NFHE managers have never been married, while this is true of almost 37 percent of those in non-agricultural wage employment, 31 percent of those in agricultural wage employment and 24 percent of those in self-employment or unpaid family work in the agricultural sector.

**Gender of Proprietor:**

We turn now to an analysis of NFHEs according to the gender of their managers or proprietors. Of the approximately 1.7 million NFHEs in Uganda in 1999, 53 percent or 911 000 were managed by males and 46 percent or 784 000 by females. The rapid growth in the number of NFHEs, discussed earlier, was proportionally spread across both male and female proprietors, as evidenced by the virtually unchanged gender shares in 2005. Had the growth been biased towards male or female proprietors, the gender shares in 2005 would have been significantly different from 1999. By 2005, there were 1.2 million female proprietors, approximately 55 percent more than in 1999, while the number of male proprietors increased by just under 60 percent.

Geographically, there initially were only small differences in the location of firms with proprietors of differing genders, although in most cases these differences were statistically significant. The majority of male-managed NFHEs in 1999 were located in the Eastern Rural (25 percent), Western Rural (21 percent) and Central Rural (20 percent) areas. In fact, rural areas accounted for 78 percent of all male-managed NFHEs. In contrast, female-managed were less concentrated in rural areas, with only 71 percent of them located there. The majority of female-managed NFHEs were, though, located in the Northern Rural (32 percent), Central Urban (19 percent) and the Central and Eastern Rural areas (17 percent each). Male-managed NFHEs were overrepresented in the Central Rural, Eastern Rural and Western Rural areas, while they were underrepresented in the Northern Rural and Northern Urban areas.

This general pattern remained in place in 2005, with 78 percent of male-managed enterprises situated in rural areas, compared to 72 percent of female-managed enterprises. The growth in the number of enterprises in the Central region, particularly in the rural areas, saw the Eastern Rural area, in particular, decline in terms of the relative number of both male- and female-managed NFHEs located there. The largest differences in the locations of male- and female-managed NFHEs were in the Eastern Rural area, which accounted for 20 percent of male-managed enterprises and only 13 percent of female-managed enterprises, the Northern Rural area, with 12 percent of male-managed compared to 25 percent of female-managed enterprises, and the Western Rural area, with 20 percent of male-managed and 13 percent of female-managed enterprises.

In numerical terms, while male-managed enterprises constituted a slight majority of all NFHEs nationally (53 percent and 52 percent in 1999 and 2005 respectively), there were some differences regionally. In 1999, female-managed enterprises outnumbered their male
counterparts in the Northern Rural (71 percent to 29 percent respectively) and the Northern Urban (63 percent to 37 percent) areas. The converse is true in other regions, with an above average dominance of male-managed NFHEs in the Central Rural (60 percent), Eastern Rural (66 percent) and Western Rural (74 percent) areas. By 2005, the only real change in this respect was that male-managed enterprises no longer constituted an above average share of NFHEs in the Central Urban area, where the gender shares were not statistically different to the national pattern. Nevertheless, two out of three NFHEs in the two Northern areas remained female-managed. The only statistically significant change in the male-female ratio occurred in the Western Rural area, where the proportion of male-managed enterprises fell nine percentage points, from 74 percent in 1999 to 65 percent in 2005.

In terms of industrial sector, the data reveals that while the bulk of NFHE activity was located in Wholesale and Retail Trade and Manufacturing, the former accounting for 55 percent of male-managed NFHEs compared to 46 percent of female-managed enterprises, while the opposite was true of Manufacturing enterprises (29 percent of male-managed and 47 percent of female-managed enterprises). These two sectors accounted for approximately 85 percent of male-managed and 93 percent of female-managed enterprises. Transport and Communication was the third most important sector for male-managed NFHEs at five percent. By 2005, there is some evidence of diversification for male-managed enterprises in particular: the two main sectors, Manufacturing and Wholesale and Retail Trade, accounted for 79 percent of male-managed NFHEs, down around six percentage points from six years earlier. Further, the proportions of enterprises in Community, Social and Personal (CSP) Services and in the sectors comprising the All Other category that were male-managed were statistically greater than the proportions for female-managed enterprises. The period saw a decline in the importance of Manufacturing for both male- and female-managed enterprises, although far more so for the latter and it remained more important amongst female-managed NFHEs than amongst male-managed enterprises. In contrast, while the importance of Wholesale and Retail Trade declined slightly for male-managed enterprises, it increased for female-managed enterprises and, by 2005, the difference between the two was statistically insignificant.

In 1999, female-managed NFHEs were dominant in Manufacturing (58 percent of NFHEs) and CSP Services (59 percent, although this difference is not statistically significant), while male-managed enterprises were particularly dominant in Wholesale and Retail Trade (58 percent), and Transport and Communication (96 percent). The female dominance in Manufacturing remained in 2005, with 53 percent of NFHEs in that sector being managed by a female. However, there was a complete reversal in CSP Services, which came to be dominated by male-managed enterprises (69 percent, from only 41 percent six years earlier).
Table 7: Non-Farm Household Enterprise Characteristics by Gender of Proprietor, 1999 to 2005

<table>
<thead>
<tr>
<th></th>
<th>Distribution</th>
<th>Share</th>
<th>Distribution</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Male</td>
<td>Female</td>
<td>Total</td>
<td>Male</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>53</td>
</tr>
<tr>
<td><strong>By Area</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central Urban</td>
<td>14</td>
<td>19     *</td>
<td>16</td>
<td>46</td>
</tr>
<tr>
<td>Eastern Urban</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>52</td>
</tr>
<tr>
<td>Northern Urban</td>
<td>1</td>
<td>3     *</td>
<td>2</td>
<td>37</td>
</tr>
<tr>
<td>Western Urban</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>56</td>
</tr>
<tr>
<td>Central Rural</td>
<td>20</td>
<td>15     *</td>
<td>18</td>
<td>60</td>
</tr>
<tr>
<td>Eastern Rural</td>
<td>25</td>
<td>15     *</td>
<td>21</td>
<td>66</td>
</tr>
<tr>
<td>Northern Rural</td>
<td>12</td>
<td>32     *</td>
<td>21</td>
<td>29</td>
</tr>
<tr>
<td>Western Rural</td>
<td>21</td>
<td>9      *</td>
<td>15</td>
<td>74</td>
</tr>
<tr>
<td><strong>By Industry</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>29</td>
<td>47     *</td>
<td>37</td>
<td>42</td>
</tr>
<tr>
<td>Wholesale &amp; Ret. Trade</td>
<td>55</td>
<td>46     *</td>
<td>51</td>
<td>58</td>
</tr>
<tr>
<td>Transp&amp;Communication</td>
<td>5</td>
<td>0      *</td>
<td>3</td>
<td>96</td>
</tr>
<tr>
<td>CSP Services</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>41</td>
</tr>
<tr>
<td>All Other</td>
<td>10</td>
<td>5      *</td>
<td>8</td>
<td>69</td>
</tr>
<tr>
<td><strong>By Age of Enterprise</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0-1 Year</td>
<td>17</td>
<td>26     *</td>
<td>21</td>
<td>44</td>
</tr>
<tr>
<td>2 Years</td>
<td>13</td>
<td>15</td>
<td>14</td>
<td>50</td>
</tr>
<tr>
<td>3 Years</td>
<td>9</td>
<td>7</td>
<td>8</td>
<td>60</td>
</tr>
<tr>
<td>4 Years</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>55</td>
</tr>
<tr>
<td>5+ Years</td>
<td>54</td>
<td>45     *</td>
<td>50</td>
<td>59</td>
</tr>
<tr>
<td><strong>By Months Operational</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 6 months</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>6 to 11 months</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>12 months</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
</tbody>
</table>


Notes: An asterisk (*) denotes a statistically significant difference between the male and female distributions. A dagger (†) denotes a statistically significant difference between the share of male proprietors for a given covariate and the overall share of male proprietors, and thus also for female proprietors. The male-female proportions (shares) may not add up to 100 percent as a result of individuals who did not report their genders.
The aggregated figures obscure important gender-based distinctions in the sectoral distribution of NFHE activities. Just over half of all NFHE activity in the manufacturing sector is accounted for by female-managed enterprises, as noted above. However, this proportion varies substantially across the major subsectors within manufacturing (Table 8). Female-managed enterprises are particularly dominant within the manufacturing of other food products (70 percent of NFHEs) and of beverages (69 percent). The manufacture of beverages accounts for 43 percent of NFHEs in the manufacturing sector, while the manufacture of other food products accounts for a further 12 percent. In contrast, male-managed enterprises dominate within the manufacturing of products of wood, cork, straw and plaiting materials, accounting for 58 percent of NFHEs. Within the remainder of the manufacturing sector, which represents approximately 29 percent of all manufacturing NFHEs, male-managed enterprises account for seven out of ten enterprises.

<table>
<thead>
<tr>
<th></th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Share</td>
<td>Number</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>397</td>
<td>46</td>
<td>454</td>
</tr>
<tr>
<td>Mfg of other food products</td>
<td>30</td>
<td>28</td>
<td>74</td>
</tr>
<tr>
<td>Mfg of beverages</td>
<td>110</td>
<td>30</td>
<td>255</td>
</tr>
<tr>
<td>Mfg of products of wood, cork, straw etc</td>
<td>79</td>
<td>58</td>
<td>56</td>
</tr>
<tr>
<td>All other manufacturing</td>
<td>177</td>
<td>71</td>
<td>69</td>
</tr>
<tr>
<td>Wholesale &amp; Retail Trade</td>
<td>762</td>
<td>53</td>
<td>668</td>
</tr>
<tr>
<td>Wholesale of agric raw materials, live animals, food, beverages &amp; tobacco</td>
<td>103</td>
<td>84</td>
<td>18</td>
</tr>
<tr>
<td>Non-specialised retail trade in stores</td>
<td>135</td>
<td>65</td>
<td>70</td>
</tr>
<tr>
<td>Retail sale of food, beverages &amp; tobacco in specialised store</td>
<td>54</td>
<td>42</td>
<td>73</td>
</tr>
<tr>
<td>Retail trade not in stores</td>
<td>272</td>
<td>44</td>
<td>341</td>
</tr>
<tr>
<td>All other wholesale &amp; retail trade</td>
<td>199</td>
<td>53</td>
<td>166</td>
</tr>
</tbody>
</table>

Notes: Shares do not necessarily add to 100 due to the presence of a small proportion of individuals who did not report their genders.

A similar situation prevails within wholesale and retail trade. In this sector, male-managed NFHEs are dominant overall, accounting for 53 percent of all NFHEs, or 762,000 enterprises. Male-managed enterprises are particularly dominant within the wholesale of agricultural raw materials, live animals, food, beverages and tobacco, accounting for 84 percent of NFHEs, while accounting for two-thirds of NFHEs in non-specialised retail trade in stores. Together, these two subsectors represent 23 percent of all NFHEs in the wholesale and retail trade sector. Female-managed NFHEs in turn dominate within retail sale of food, beverages and tobacco in specialised stores (56 percent of enterprises) and within retail trade not in stores (55 percent). The latter is a particularly large subsector, accounting for more than half of all female-managed NFHEs and more than two-fifths of all NFHEs in the sector. These findings reveal important gender-based differences in the activities engaged in by male- and female-managed NFHEs, indicating a concentration of female-managed NFHEs within food- and beverage-related activities in both manufacturing and wholesale and retail trade. Further, female-managed NFHEs constitute the majority of retail traders who operate outside of physical stores, and who therefore find themselves in more vulnerable and marginalised positions.
The gender of the NF enterprise proprietor appears, in 1999, to have had only weak correlation with the age of the enterprise (Table 7). Female-managed enterprises were slightly over-represented amongst the youngest category of enterprises (26 percent, compared to 17 percent for male-managed enterprises), and slightly under-represented amongst enterprises aged five years or more (45 percent, compared to 54 percent for male-managed enterprises). Indeed, it is only in the youngest enterprise age category that female-managed enterprises are numerically dominant (56 percent of firms), while the share of male-managed enterprises in the oldest enterprise age category is statistically greater than average, at 59 percent. Consequently, more than four out of ten female-managed enterprises in 1999 were aged two years or less, compared to three in ten male-managed enterprises. In 2005, it appears that female-managed firms continued to be more likely to be younger (and thus less likely to be older). In particular, female-managed NFHEs continued to be numerically dominant amongst enterprises aged one year or less (52 percent), while also coming to dominate amongst enterprise aged two years (54 percent).

There appears to be no correlation between the gender of the proprietors of NF enterprises and the number of months it operated in the preceding year in 2005. Unfortunately, the question was not asked in 1999 and a comparison between the two years can therefore not be made. Female-managed enterprises were slightly less likely than male-managed enterprises to operate for all 12 months (52 percent \textit{vs.} 58 percent), and this difference is statistically significant. For both genders, enterprises were evenly split across operating for less than six months of the year, and operating for six to 11 months.

Finally, in terms of gender of the NF enterprise proprietor, we turn to turnover and profit (Table 9). In 2005, mean nominal turnover was 494 000 shillings, while mean nominal profits stood at 188 000 shillings.\footnote{Unfortunately, this information is not available in the 1999 UNHS, while the comparability issues surrounding the 2002 data makes intertemporal conclusions treacherous.} Male-managed NF enterprises outperformed female-managed enterprises in terms of both turnover and profits generated. Mean turnover for male-managed NFHEs stood at 712 000 shillings, about 44 percent higher than the national average, while that of female-managed NFHEs stood at 229 000 shillings, which was only 46 percent of the national average. While the same pattern is evident in terms of profits, the difference between the genders is less extreme with profits of male-managed NFHEs 38 percent above the national average and those of female-managed NFHEs 54 percent of the national average. The implication of this narrowing of the gender gap is that the rate of profit is higher amongst female-managed NFHEs than amongst those managed by males (45 percent compared to 37 percent respectively). Possibly underlying the differences – in turnover levels and/or profitability rates between enterprises managed by male as opposed to female proprietors – is the differing sectoral composition of enterprises according to the gender of the proprietor, with female proprietors possibly more likely to engage in areas with lower turnovers, but greater profitability.
NFHEs headed by males who are also the head of the household tend to be more successful in terms of both turnover and profit than those headed by males who are not household heads. Granted, only nine percent of male-managed NFHEs are not managed by household heads, but the differences in turnover and profit are statistically significant at the 95 percent confidence level. NFHEs managed by males who are household heads report mean turnover and profit of 756 000 shillings and 281 000 shillings respectively, compared to just 267 000 shillings and 109 000 shillings respectively for those managed by males who are not household heads. Interestingly, there appears to be no difference, statistically speaking, in turnover or profit amongst female-headed NFHEs depending on whether or not the female heading the enterprise is also the head of the household. Indeed, there is no difference in terms of turnover and profit between female-managed NFHEs, irrespective of their household head status, and those managed by males who are not household heads.

Non-Farm Enterprise Households

We turn now to the characteristics of households that are home to individuals who manage non-farm household enterprises. The unit of analysis here is the household. The first important feature to note is the increase in the number of households over the period, from 646 000 in 1999/2000 to 911 000 in 2005/2006. This increase of around two-fifths is equivalent to an average annual rate of growth of 5.9 percent. At the same time, the Ugandan labour force grew from 8.5 million individuals to 10.8 million, at an average annual rate of 4.1 percent.

In 1999, just over one-third (36 percent) of households were home to non-farm household enterprises. This is equivalent to almost 1.5 million of the 4.1 million households in Uganda. The majority of these households report the existence of only one NFHE (1.2 million households, 30 percent of all households), with only five percent of all households reporting the existence of two NFHEs. Virtually no households reported more than two NFHEs in 1999. Between urban and rural areas, however, there is a large difference in the prevalence of NFHEs. While 68 percent of rural households report not having a non-farm household enterprise, this is true of only 45 percent of urban households. In other words, while it is relatively uncommon amongst rural households, engagement in NFHE activity is relatively common in urban areas of Uganda. Approximately two in five urban households report the existence of one NFHE, compared with

### Table 9: Nominal Turnover and Profit of Non-Farm Household Enterprises by Gender of Manager, 2005

<table>
<thead>
<tr>
<th></th>
<th>Turnover ('000 Shillings)</th>
<th>Profit ('000 Shillings)</th>
<th>Rate of Profit (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Confidence Interval</td>
<td>Amount</td>
</tr>
<tr>
<td>Male</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Household head</td>
<td>712</td>
<td>385</td>
<td>1 038</td>
</tr>
<tr>
<td>Not household head</td>
<td>267</td>
<td>188</td>
<td>345</td>
</tr>
<tr>
<td>Female</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Household head</td>
<td>229</td>
<td>160</td>
<td>298</td>
</tr>
<tr>
<td>Not household head</td>
<td>208</td>
<td>153</td>
<td>264</td>
</tr>
<tr>
<td>Total</td>
<td>494</td>
<td>313</td>
<td>675</td>
</tr>
<tr>
<td>Male:Female</td>
<td>3.11</td>
<td>2.55</td>
<td>0.82</td>
</tr>
<tr>
<td>Male:Total</td>
<td>1.44</td>
<td>1.41</td>
<td>0.98</td>
</tr>
<tr>
<td>Female:Total</td>
<td>0.46</td>
<td>0.55</td>
<td>1.19</td>
</tr>
</tbody>
</table>

one in three in rural areas. Furthermore, ten percent of urban households report two or more NFHEs, compared to just four percent of rural households.

Table 10: Prevalence of Non-Farm Enterprises, 1999 to 2005

<table>
<thead>
<tr>
<th></th>
<th>Urban</th>
<th></th>
<th>Rural</th>
<th></th>
<th>All</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number (#,000s)</td>
<td>Share (Percent)</td>
<td>Number (#,000s)</td>
<td>Share (Percent)</td>
<td>Number (#,000s)</td>
<td>Share (Percent)</td>
</tr>
<tr>
<td>1999</td>
<td>294</td>
<td>45</td>
<td>2,351</td>
<td>68</td>
<td>2,645</td>
<td>64</td>
</tr>
<tr>
<td>No Non-Farm Enterprises</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At least One Non-Farm Enterprise</td>
<td>352</td>
<td>54</td>
<td>1,110</td>
<td>32</td>
<td>1,463</td>
<td>36</td>
</tr>
<tr>
<td>- One Non-Farm Enterprise</td>
<td>279</td>
<td>43</td>
<td>964</td>
<td>28</td>
<td>1,244</td>
<td>30</td>
</tr>
<tr>
<td>- Two Non-Farm Enterprises</td>
<td>68</td>
<td>10</td>
<td>131</td>
<td>4</td>
<td>199</td>
<td>5</td>
</tr>
<tr>
<td>- Three or more Non-Farm Enterprises</td>
<td>5</td>
<td>1</td>
<td>14</td>
<td>0</td>
<td>20</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>646</td>
<td>100</td>
<td>3,462</td>
<td>100</td>
<td>4,108</td>
<td>100</td>
</tr>
<tr>
<td>2005</td>
<td>398</td>
<td>44</td>
<td>2,681</td>
<td>62</td>
<td>3,078</td>
<td>59</td>
</tr>
<tr>
<td>No Non-Farm Enterprises</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At least One Non-Farm Enterprise</td>
<td>514</td>
<td>56</td>
<td>1,632</td>
<td>38</td>
<td>2,148</td>
<td>41</td>
</tr>
<tr>
<td>- One Non-Farm Enterprise</td>
<td>376</td>
<td>41</td>
<td>1,306</td>
<td>30</td>
<td>1,682</td>
<td>32</td>
</tr>
<tr>
<td>- Two Non-Farm Enterprises</td>
<td>116</td>
<td>13</td>
<td>276</td>
<td>6</td>
<td>392</td>
<td>8</td>
</tr>
<tr>
<td>- Three or more Non-Farm Enterprises</td>
<td>21</td>
<td>2</td>
<td>50</td>
<td>1</td>
<td>74</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>911</td>
<td>100</td>
<td>4,315</td>
<td>100</td>
<td>5,226</td>
<td>100</td>
</tr>
</tbody>
</table>


The growth in the number of NF enterprises discussed earlier was a combination of two trends. Firstly, the absolute number of households reporting the existence of a household enterprise grew, from 36 percent in 1999 to 41 percent in 2005. In fact, the number of households with at least one NF enterprise grew from just under 1.5 million in 1999 to just over 2.1 million in 2005, an increase of almost 700,000 households or around 47 percent over the period. Thus, by the end of the period, two out of every five households had at least one NF enterprise. The second trend was an increase in the mean number of NFHEs per household, evident in the increase from a near zero base in the number of households with multiple NFHEs. Thus, by 2005, eight percent of all Ugandan households had two NF enterprises, while around one percent had three or more. The mean number of NF enterprises per household engaged in NFHE activities rose from 1.16 in 1999, to 1.30 in 2005, a 12 percent increase.

Over the six year period, the probability of involvement in non-farm household enterprise activity in urban areas has not changed much, despite a slight increase in the proportions of households with two NFHEs or with three or more NFHEs. In rural areas, however, the rate of involvement in NFHE activity increased over the period from 32 percent to 38 percent. This was accompanied by slight increases in the proportions of households reporting one, two and three or more NFHEs. Thus, the global trend within Uganda of an increase in the number of NFHEs was comprised of two individual trends, which saw increased probabilities of involvement in NFHE activities and an increase in the mean number of enterprises per household amongst those households engaged in NFHE activity.

Although there was an average of 0.5 non-farm household enterprises per household in Uganda in 2005, it is noted that only 41 percent of households had at least one NFHE. Within the context of understanding NFHEs, it is crucial to understand how engagement in NFHE activity varies across the welfare distribution. There is a clear relationship between engagement in NFHE activity and the location of households within the welfare distribution, with households in lower
welfare quintiles less likely to have NFHEs (Table 11). Almost two-thirds of quintile one households – the 20 percent of households with the lowest welfare levels – report no NFHEs, while 6.5 percent report multiple NFHEs. As one moves up the distribution, the proportion of households reporting no NFHEs falls while the proportions with one NFHE and with multiple NFHEs rise. Thus, amongst the 20 percent of households with the highest welfare levels (quintile five), 49 percent report no NFHEs and 14 percent report multiple NFHEs. The direction of causality is not immediately clear, however. Households may be better off because they are more likely to engage in NFHE activity, or better-off households may be in a better position to enter into NFHE activity because, for example, they have better access to capital.

Table 11: Access to Income and Relative Importance of Income by Source of Income, 2005

<table>
<thead>
<tr>
<th>Proportion of Households with...</th>
<th>Share of Households Earning Income from Source</th>
<th>Share of Total Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zero NFHEs</td>
<td>Crop Income</td>
<td>NFHE Income</td>
</tr>
<tr>
<td>Quintile 1</td>
<td>64.6</td>
<td>28.9</td>
</tr>
<tr>
<td>Quintile 2</td>
<td>66.8</td>
<td>26.7</td>
</tr>
<tr>
<td>Quintile 3</td>
<td>61.3</td>
<td>30.7</td>
</tr>
<tr>
<td>Quintile 4</td>
<td>57.4</td>
<td>34.8</td>
</tr>
<tr>
<td>Quintile 5</td>
<td>48.8</td>
<td>37.3</td>
</tr>
<tr>
<td>Total</td>
<td>58.9</td>
<td>32.2</td>
</tr>
</tbody>
</table>

Notes: Shares of total income are calculated by excluding the top one percent of households ranked according to total income, since their inclusion results in significant distortions of the means.

Almost two-thirds (63 percent) of Ugandan households had access to crop income in 2005, while 41 percent had access to income from NFHEs and 11 percent had access to wage income. However, the pattern of access indicates that access to crop income is associated with being in lower quintiles, with almost 75 percent of households in quintiles two and three receiving crop income, compared to just 45 percent of quintile five households. In contrast, access to NFHE income is associated with higher welfare levels: one-third of quintile two households received income from NFHEs, compared to one-half of quintile five households. Access to wage income is very clearly related to higher welfare levels, with consistently around nine percent of households in each of the four poorest quintiles earning wage income compared to 19 percent of households in the top quintile.

Taking engagement in NFHE activity one step further, the latter columns of the table reflect the mean proportions of total income derived from crops, non-farm household enterprises and wages, with all other sources of income representing the residual ‘other’ income. The evidence reveals that reliance on crop income declines from around one-quarter in quintiles one and two, to just eight percent in quintile five. At the same time, income from NFHEs contributes an increasing proportion of total income, rising from 48 percent in quintile one to 70 percent in quintiles four and five. Wage income contributes a very small proportion of total household income on average for households across the distribution. Given the trends in other income, it appears that for the lower four quintiles NFHE income displaces crop and other income as it increases, resulting in declining shares for the latter two income sources.
While the relationship between household poverty status and living standards on the one hand, and engagement in NF enterprise activity on the other hand is impossible to gauge from descriptive statistics, it is at least worth considering whether there is any initial evidence suggestive of a correlation between these variables. We first consider household poverty status and engagement in NF enterprise activity (Table 12). As noted above, engagement in NFHE activity is inversely related to a household’s position in the welfare distribution. The question here is whether poor households or non-poor households are more likely to engage in NF enterprise activity. There are arguments for both. Poor households may be forced to find alternative means of sustaining their members and so may be more likely to engage in NF enterprises, while non-poor households may be more able to raise the suitable capital to establish NF enterprises and so may be more likely to engage in NF enterprises. Indeed, it may be argued, if NF enterprises are found to be even marginally profitable, that engagement in these activities is more widespread amongst non-poor households, because households that report NF enterprises are less likely to be poor.

| Table 12: Poverty Status and Engagement in Non-Farm Enterprise Activity, 2005 |
|--------------------------|--------------------------|--------------------------|
|                         | Share of Non-Poor | Share of Poor | Poverty Rate |
| No NF Enterprises        | 57                 | 65             | 29           |
| One NF Enterprise        | 34                 | 28             | 23           |
| Two NF Enterprises       | 8                  | 6              | 20           |
| Three or more NF Enterprises | 2               | 1              | 14           |
| Total                    | 100                | 100            | 26           |


The data shows, consistent with the evidence above, that non-poor households are more likely to be engaged in NFHE activity and are more likely to report multiple enterprises compared with poor households. Further, the evidence suggest that the household poverty rate is inversely related to the level of engagement in NFHE activity. Almost three in ten households that report no NFHEs are poor, compared to two in ten households that report two NFHEs and just 14 percent of households reporting three or more NFHEs.

Overall, therefore, the data suggests that households that report the existence of NFHEs are better off than those that do not, and that better-off households are more likely to report multiple NFHEs in their households. These types of results are also found when considering household services, such as type of toilet access and type of water access, for example (see Table 17 and Table 18 in the appendix). Although causality cannot be inferred through this type of analysis, it does further confirm the link between welfare levels and the existence of NFHEs within households.

A similar pattern emerges when looking at the type of fuel used for lighting, an infrastructural or household service measure that may inform our understanding of household enterprise productivity, for example. NFHE households in rural areas are significantly better off than non-NFHE households in both 1999 and 2005 (Table 13). In 1999, relatively more NFHE households have access to electricity for lighting (two percent vs. one percent), and to paraffin, kerosene and gas lamps (16 percent vs. nine percent). Conversely, relatively fewer rely on tadoobas (74 percent vs. 83 percent). A similar pattern is observed in 2005. At the same time, access to electricity for lighting in rural areas rose significantly from one percent to three percent for non-NFHE households and from two percent to five percent for NFHE households. In contrast, in
urban areas, rates of access to the various types of fuel for NFHE and non-NFHE households are similar to each other, with the only statistically significant difference being for the other/unspecifed category. Thus, the presence of NFHEs in rural households appears to be linked with access to superior fuel types, while in urban areas this is not the case and there is no statistically significant difference between households with and those without NFHEs.

**Table 13: Fuel Used for Lighting by Household Engagement in Non-Farm Enterprise, 1999 to 2005**

<table>
<thead>
<tr>
<th></th>
<th>Rural</th>
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**Notes:** An asterisk (*) denotes a statistically significant difference between proportions of NFHE households and other households for a given year and area. A dagger (†) denotes a statistically significant change in the proportions between 1999 and 2005, for a given group of households.

In the case of fuel for lighting, the implications for rural as opposed to urban NF enterprises are more obvious than the implications for households reporting NF enterprise activity as opposed to those that do not. Urban NF enterprise households are, in both years, far more likely to have access to electricity for lighting and much less likely to be forced to rely on tandooba than their rural counterparts. It is quite likely that this superior service access may result in higher productivity in urban NF enterprises, as well as allowing for a greater range of activities than is possible in rural areas. This is at least partly borne out by slightly greater sectoral diversity amongst urban as opposed to rural NF enterprises.

In terms of assets, differences between the questionnaires mean that it is not possible to make many comparisons between 1999 and 2005. There are three assets that can be compared across the 2002 and 2005 surveys, namely motorcycles, bicycles and mobile phones, with the 1999 questionnaire only having bicycle ownership of the three questions. Although ownership of other assets is probed in both surveys, different categorisations, apart from different questions, mean that more comparisons are not possible. Household ownership of motorcycles is very low – generally below five percent – and does not appear to vary with the households’ engagement in NF enterprise activities. In the case of bicycles, however, it appears that NF enterprise households generally enjoy superior ownership rates in all three periods and in both urban and rural areas. Bicycle ownership is particularly high amongst NF enterprise households in rural areas, where one-half of all these households own a bicycle, compared to around one-quarter in urban areas.
Finally, while rates of ownership of mobile phones were higher amongst non-NF enterprise households, in 2002 in both rural and urban areas, the opposite is true in 2005. Whereas non-NF enterprise households were at least twice as likely as NF enterprise households to own a mobile phone in 2002 in both urban and rural areas, the situation is reversed in rural areas in 2005. Amongst urban households, NF enterprise households are 25 percent more likely to own mobile phones than their non-NF enterprise counterparts (50 percent vs. 41 percent). This has occurred in the context of rapid growth in access to mobile telephony, with access rates more than quadrupling amongst urban NF enterprise households, and increasing by half for non-NF enterprise households off a not insignificant base. The usefulness of mobile phones for small businesses in developing countries has been demonstrated around the world, and the rapid increase in access amongst NF enterprise households seems to indicate that this same phenomenon is at work in Uganda.

**Conclusion**

The non-farm household enterprise sector is an important component of the Ugandan economy, with approximately 2.7 million non-farm household enterprises in 2005. This sector has grown rapidly between 1999 and 2005 and, at a rate of eight percent per annum, is roughly in line with annual non-agricultural wage employment growth over the period of 11 percent. This expansion in the number of non-farm household enterprises is the product of two trends, namely an increase in the likelihood that households are engaged in NFHE activities and an increase in the mean number of household enterprises reported by households.

Locationally, the Central and Northern regions are overrepresented in terms of non-farm household activity, with the former accounting for two in five Ugandan NFHEs in 2005. The bulk of activity is concentrated in just two sectors, namely Wholesale and Retail Trade and Manufacturing, which combined account for four-fifths of NFHEs in both periods. Nevertheless, there does appear to be some movement towards greater diversification in activity, specifically towards services, but these sectors remain very small. In terms of subsectoral activities, female-managed NFHEs are concentrated within food- and beverage-related activities in both manufacturing and wholesale and retail trade. Female-managed NFHEs are also more likely to be engaged in retail trade outside of formal stores, with implications in terms of vulnerability and prospects for improvements in productivity and profitability.

Rates of return in 2005 were above average in the secondary sector and were lowest in Construction, Hotels and Restaurants and Wholesale and Retail Trade. While female proprietors
lag their male counterparts in terms of turnover and profit, it appears that their mean rate of profit is slightly higher, possibly relating to the different distribution of activity across industry by the gender of the proprietor. The presence of NFHEs in households is related to superior welfare outcomes, while households at higher welfare levels are also more likely to report multiple NFHEs. Thus, we find that the share of income derived from NFHE activities is positively correlated with the household’s position in the welfare distribution.

The data indicates that NFHE households in rural areas have superior service and asset access compared with rural households who are not engaged in NFHE activities. However, this pattern does not hold in urban areas. It appears, therefore, that perhaps engaging in NFHE activity may widen the gap between NFHE households and other households in rural areas, but may narrow the gap between NFHE households and other households in urban areas. Finally, urban NFHEs have superior service access compared to their rural counterparts, with possible implications for productivity and profitability.

References

Appendix

Table 15: Geographical Distribution of Employed, Unemployed and Labour Force, 1999 and 2005

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<tr>
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<th>Labour Force</th>
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Notes: 1. Employed individuals are defined as either wage-earners, employers or own account workers, or unpaid family workers.

Table 16: Distribution of Non-Farm Household Enterprises by Industry, 1999 and 2005

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<tr>
<th></th>
<th>Total</th>
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<th>Share in Rural Areas (Percent)</th>
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Figure 4: Distribution of Profit by Gender of Non-Farm Household Enterprise Proprietor, 2005

Notes: 1. For ease of graphing, this figure omits the bottom three percent and the top five percent of observations.
Figure 5: Distribution of Age of Enterprise by Gender of Non-Farm Household Enterprises, 1999 and 2005

Figure 6: Distribution of Number of Months Non-Farm Household Enterprise Operated in Past Year by Gender of Proprietor, 2005


Table 17: Access to Water by Household Engagement in Non-Farm Household Enterprise Activity, 1999 to 2005

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Notes: An asterisk (*) denotes a statistically significant difference between proportions of NFHE households and other households for a given year and area. A dagger (†) denotes a statistically significant change in the proportions between 1999 and 2005, for a given group of households.

Table 18: Household Access to Toilet Facilities by Household Engagement in Non-Farm Enterprise, 1999 to 2005

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Notes: An asterisk (*) denotes a statistically significant difference between proportions of NFHE households and other households for a given year and area. A dagger (†) denotes a statistically significant change in the proportions between 1999 and 2005, for a given group of households.
ANNEX 4

UGANDA COUNTRY STUDY

Raising Productivity and Reducing the Risk of Household Enterprises

FIELD SURVEY REPORT

Submitted by
Amos Bakeine,
Lead Consultant

September 2009
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<td>Nature &amp; extent of worksite related challenges</td>
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<td>List of main activities undertaken by HEs</td>
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ACRONYMS

AAP          Africa Action Plan
AMFIU        Association of Microfinance Institutions in Uganda
ASCA         Accumulating Savings and Credit Association
BDS          Business Development Services
BTVET        Business, Technical and Vocational Education and Training
BUDS         Business Uganda Development Services
CBOs         Community Based Organisations
CICS         Competitive and Investment Climate Strategy
CPs          Community Polytechnics
DANIDA       Danish International Development Agency
DCO          District Commercial Officers
DED          German Development Services
DFID         Department for International Development (UK)
DPSF         Decentralization Policy Strategic Framework
DRC          Democratic Republic of Congo
DTI          Directorate of Industrial Training (MOES)
EAC          East African Community
ESW          Economic and Sector Work
EU           European Union
FGDs         Focus Group Discussions
FISA         Federation of Informal Sector Associations
GDP          Gross Domestic Product
GOU          Government of Uganda
HEs          Non-farm Household Enterprises
ICA          Investment Climate Assessment
ICLS         International Conference of Labour Statisticians
ICT          Information Communication Technology
IDA          International Development Association
IDRC         International Development Resource Centre
ILO          International Labour Organisation
KIBP         Kampala Industrial Business Park
LC           Local Council
MCP          Master Craftsman Program
MDI          Microfinance Deposit taking Institutions
MFIs         Microfinance Institutions
MOES         Ministry of Education and Sports
MOP          Microfinance Outreach Plan
MSCL         Microfinance Support Centre Limited
MSEs         Micro and Small sized Enterprises
MSMEs        Micro, Small and Medium sized Enterprises
MTTI         Ministry of Tourism, Trade and Industry
NAADS        National Agricultural Advisory Services
Uganda Country Study: Raising productivity and reducing the risk of household enterprises – Field report

NDP  National Development Plan
NEMA  National Environmental Management Agency
NFHEs  Non-farm Household Enterprises
NGOs  Non-Governmental Organisations
NPA  National Planning Authority
NPPAs  National Priority Programme Areas
NTDP  National Trade Development Plan
PEAP  Poverty Eradication Action Plan
PEVOT  Promotion of Employment Oriented Vocational Training
PFA  Prosperity for All
PMA  Plan for the Modernisation of Agriculture
PPET  Post Primary Education and Training
PPP  Public-Private Partnership
PREM  Poverty Reduction and Economic Management network
PSFU  Private Sector Foundation Uganda
RGCs  Rural Growth Centres
ROSCA  Rotating Savings and Credit Association
SACCOs  Savings and Credit Cooperative organisations
SMEs  Small and Medium sized Enterprises
TVET  Vocational Education and Training System
UBOS  Uganda Bureau of Statistics
UCA  Uganda Cooperative Alliance
UCSCU  Uganda Cooperative Savings and Credit Union
UEPB  Uganda Export Promotion Board
UGAPRIVI  Uganda Association of Private Vocational Institutes
UGX  Uganda Shillings
UIA  Uganda Investment Authority
UIRI  Uganda Industrial Research Institute
UNBS  Uganda National Bureau of Standards
UNCCI  Uganda National Chamber of Commerce and Industry
UNDP  United Nations Development Program
UNHS  Uganda National Household Survey
UNIDO  United Nations Industrial Development Organisation
UPE  Universal Primary Education
UPTOP  Uganda Program for Trade Opportunities and Policy
URA  Uganda Revenue Authority
USAID  United States Agency for International Development
USD  United States Dollars
USSIA  Uganda Small Scale Industries Association
UWEAL  Uganda Women Entrepreneurs Association
VSLA  Village Savings and Loan Association
VTI  Vocational Training Institutes
WIEGO  Women in Informal Employment: Globalizing and Organising (network)
EXECUTIVE SUMMARY

A. Introduction
The Government of Uganda is in the process of preparing a National Development Plan (NDP). As part of this process, a National Industrial Strategy has been prepared and the Government now seeks to prepare a strategy for the smallest enterprises in the informal sector. As a contribution to the process, the World Bank commissioned the Uganda County Study to support the development of a national strategy for increasing the productivity of household enterprises (HEs). As a part of the study, a field survey, which is the subject of this report, was carried out involving 30 focus group discussions (FGDs) and 466 structured interviews (SIs).

B. The sample
The study sample which was drawn from rural and urban areas across the country included individual HEs, organisations representing HEs and representatives of programs and institutions with an interest in HEs. The survey sought to establish policies laws and regulations that hurt the operations of HEs; institutions and programs that support HE operations; the challenges, constraints and other problems that affect HEs‘ productivity; the nature and extent of these challenges; and possible interventions perceived by HEs as necessary to address the challenges. Altogether 28 sites were selected to host focus group discussions, out of which 12 were selected from urban centres and 16 from rural centres. The 12 urban centres selected included 2 towns and one municipality from each region. In the case of central, only one town was selected and 2 sites (divisions) were selected from Kampala. The 16 rural centres included 4 sub-counties from each region. At each site, local authorities were consulted and their assistance sought in selecting entrepreneurs to participate in the survey. With the exception of the sites in Kampala, the number of participants to the survey was limited to 15. Kampala was allowed 20. In selecting entrepreneurs to participate in the survey, efforts were made to ensure that as much as possible no one economic activity enjoyed a higher representation in a focus group at the expense of other activities.

According to the information collected from them, two thirds of the HE owners making up the sample were less than 40 years of age, the male gender was dominant accounting for 72% of the sample, and residence of the members was evenly distributed with rural and urban based HEs having a share of 58% and 42% respectively. While more than 50% of the members had attained "O" level educational standard, three in every four HEs represented in the sample were making less than UGX 500,000 in monthly turnover. The economic activities undertaken by HEs cut across sectors and residence types although services and transport sector based HEs appeared to be more prevalent in the urban than in the rural areas. However, retail and manufacturing appear to be the dominant sectors overall with a combined share of 63.7% of all HEs represented in the sample.

C. Main findings
Policies, laws and regulations: According to HEs surveyed, the number of policies hurting HE operations is very small, and the majority of the problems faced by HEs arise from inappropriate enforcement methods. The most frequently voiced concerns arise from taxation, UNBS, public health, forestry, NEMA, and fisheries. HEs are concerned about what they perceive to be arbitrary license fees, over-taxation, too many taxes, the long and tedious procedure they have to endure to acquire licenses and permits, and the view perception that HEs do not see the benefits for the taxes they pay, as sanitation and other facilities remain substandard. The other concern voiced by HEs is that urban authorities are highhanded in their dealings with them especially when they are unable to pay their taxes on time for whatever reason.

HEs are concerned that the National Bureau of Standards (UNBS) is not doing enough to protect them from counterfeit that have flooded the market making it difficult for them to continue in business. They are also concerned that some landlords defy the Public Health Act by not providing sanitary facilities such as decent latrines and water drainage systems, and when HEs raise the issue, they are threatened with eviction.
Programs & institutions: The survey established that some HEs have formed associations to protect their interests. A good example was found in the sub-counties of Muko and Baala in Kabale and Apach districts with 11 and 9 associations respectively. However, the survey found that some areas had not yet formed such associations and that even those areas which had formed some had serious concerns about their governance practices. In some areas HEs were receiving services from Government initiated institutions, which the study found to be more concentrated in urban areas and mainly involved in financial services delivery with little attention paid to other needs of HEs such as skills and BDS. According to HEs surveyed, there are very few programs supporting HE operations in the areas covered by the study and the only Government program they have seen is the NAADS program which does not support non-farm enterprises.

Main challenges: According to focus groups and structured interviews covered by the survey, the main challenges, constraints and problems faced by HEs include: financial services delivery (lack of access to finance, inadequate capital); access to proper worksites and infrastructure (lack of access to worksites, poor road/rail infrastructure, and electricity power supply related problems); inadequate business knowhow (manifesting as failure to find buyers, and a high incidence of bad & doubtful debts); and access to appropriate technology (lack of access to appropriate technology including associated skills and training). While access to finance accounted for 40% of all responses, access to proper worksite and lack of business knowhow accounted for 21% and 24% respectively, and access to appropriate technology and other challenges accounted for 15%.

The challenge of access to finance which was the most frequently cited affects urban and rural HEs almost equally, with a share of 71% and 65% respectively. While 32% of HEs surveyed reported that they did not have difficulties raising finance, only 10.7% of all HEs surveyed had obtained credit from financial institutions. According to the data collected, the biggest challenge preventing HEs from accessing finance from current sources seems to be lack of acceptable collateral and the rate of interest they see as too high, accounting for 31% and 29% of all responses respectively.

Altogether while 11.4% of all HEs surveyed gave lack of access to a proper worksite as the main challenge faced by their enterprise, electricity related problems, and poor road infrastructure related difficulties were given as the main challenge by 7.1% and 2.3% of all HEs surveyed respectively. The survey found that the overwhelming majority (84%) of HEs experiencing electricity power supply related problems come from manufacturing, services and retail trade sectors.
Chapter 1
Introduction

1.1. Background to the Study

Rationale for the study

Promoting income-generating activities for the poor is one of the priorities for the shared growth pillar of the World Bank’s Africa Action Plan. Since most of the non-agricultural poor in African countries are engaged in the informal economy, largely through household enterprises, a better understanding of the dynamics, constraints and potential of informal enterprises and workers is essential for designing policies and interventions that can turn non-farm household enterprise (HEs) into an engine of employment and income growth.

The World Bank has noted that while a number of governments in Africa have been trying to increase support for policies and programs that target the informal economy, very limited attention has been paid to improving profitability and reducing the risk of small household enterprises, let alone broadening skills development for informal sector workers especially secondary school drop-outs. Consequently, the Bank has initiated a multi-year regional economic and sector work (ESW) to address inter-alia the need to improve profitability and reduce risks of household enterprises, and to broaden skills development for informal sector workers.

Household Enterprises

HEs consist of self-employed (or own-account) workers and unpaid family members engaged in non-farm business activities, at the lower end of what is often categorized as micro, small and medium enterprises (MSMEs). They lie at the intersection of enterprise-based and labor-based perspectives, and hence of growth and poverty reduction strategies. From an enterprise perspective, the focus tends to be on improving productivity and competitiveness in enterprises as a source of growth in profitability, sales and employment – although the proportion of HEs that rise to become registered MSMEs is extremely small. From a labor market perspective, important roles of HEs are to absorb surplus labor and to help households cope with the vulnerability associated with poverty. In the –survivalist‖ model, self-employment is often the only way for the growing number of labor force entrants (as well as rural-urban migrants) to earn a living as labor supply expands faster than formal wage employment.

The Ugandan Context and the proposed support by the Bank

Uganda is one of the few countries in Africa which was able to turn recovery from civil conflict into 20 years of sustained economic growth. Since 1986, the economy has undergone major structural changes. Agriculture declined in importance while industry and especially services grew rapidly. The labour force responded by shifting out of agriculture into these higher productivity sectors. These production and employment shifts resulted in the creation of new, better-paid self-employment opportunities and wage and salary jobs. While substantial poverty reduction has been achieved in the past from the shift from agriculture to HEs and other industrial and service activities, future success both in private-led growth and in poverty reduction will depend increasingly on raising productivity and growth in existing HEs.

On its own initiative, the Government of Uganda is in the process of preparing a National Development Plan (NDP). As part of this process, a National Industrial Strategy has been prepared and the Government now seeks to prepare a strategy for the smallest enterprises in the informal sector. As her input to the process, the Bank has commissioned the Uganda County Study to support the development of a national strategy for increasing the productivity of HEs. In addition the Bank’s Africa Region would like to leverage this process to prepare a case study for its multi-year study of the informal economy.
The overall objective of the Study is to support the development of a National Strategy for increasing the productivity of HEs in Uganda, as an input to the National Development Plan and to prepare a Case Study for the African Regional multi-year study of the informal economy.

Structure of the assignment
The assignment consists of three main stages namely (a) inventorying of secondary sources of data about the characteristics and performance of HEs, (b) organising a stakeholders’ workshop to present the findings from (a) and also includes organisation of the field study and (c) Report writing. The field study which is the subject of this report involved conducting structured interviews (SI) and focus group discussions (FGD) covering individual HEs, representatives of programs and institutions with an interest in HEs, and organisations representing HEs. The process of designing the field study was informed *inter-alia* by the Diagnostic Methodology Framework as well as relevant studies and reports inventoried under Stage 1. Each stage of the assignment produces outputs that feed into successive stages culminating into the final report of the country study. The main outputs of Stage 2 include the Field Report presenting a summary of the findings from the focus group discussions and structured interviews conducted during the course of the field survey. This is the background under which this report is produced.

1.2. Approach and Methodology

Study Sample
It is believed that household enterprises are the principal source of primary data and information about factors affecting productivity and the risks associated with their operations. Owing to different weather patterns and at times different cultural practices, factors affecting productivity and risks facing HEs in Uganda are expected to vary at least in weight from region to region. Even within regions, it is expected that the level of urbanization and the character of the local economy will tend to influence the environment and in particular the market conditions under which HEs operate. Accordingly, in order for the study sample to cover as much of the different environments as possible, it was designed in such a way as to include HEs from different levels of urbanization, regions and districts covering both urban as well as rural based HEs. In addition to HEs operating from regular markets in the case of urban based HEs and village markets in the case of the rural based, which are the majority, there are other HEs that do not operate from this type of environment. Such HEs include those engaged in trades such as motor vehicle repair, carpentry, hair studios, restaurants, and transport and home based HEs.

In addition to HEs, the other key informants for the study include stakeholders whose decisions and actions directly promote or restrict and or affect the success or failure of the HEs. Such stakeholders include local government as well as urban authorities, NGOs, and various associations representing household enterprises. Owing to the varied nature of informants it became necessary to use varied methodologies for interacting with them and obtaining their views. Accordingly, the views of household entrepreneurs were captured in homogeneous focus group discussion as well as structured interviews, to which they were expected to be most responsive.

Altogether 28 sites were selected to host focus group discussions, out of which 12 were selected from urban centres and 16 from rural centres. The 12 urban centres selected included 2 towns and one municipality from each region. In the case of central, only one town was selected and 2 sites (divisions) were selected from Kampala. The 16 rural centres included 4 sub-counties from each region. At each site, local authorities were consulted and their assistance sought in selecting entrepreneurs to participate in the survey. With the exception of the sites in Kampala, the number of participants to the survey was limited to 15. Kampala was allowed 20. In selecting entrepreneurs to participate in the survey, efforts were made to ensure that as much as possible no one economic activity had more representation at the expense of other activities.
It was understood that while SMEs will normally have fixed commercial premises from where they operate and while many microenterprises operate from market stalls or some fixed premises in urban centres, the vast majority of HEs do not operate from this kind of environment because their turnover is too small. As a result they tend to operate from informal make-shift premises, like road side markets in the large urban centres and along the highways as well as in village markets in the rural areas, or directly from the household in neighbourhoods. Often HEs are clustered in residential neighbourhoods. Accordingly, identifying households with household enterprises involved working with local authorities, local NGOs and other key informants based within the communities. It also meant visiting not only market places, but also neighbourhoods with households likely to have household enterprises. As a result, the sample did not only include trading enterprises, but also included HEs involved in transportation, manufacturing, etc. Copies of the study instruments used in the survey are attached as appendices 1 and 2.

Table 2 below shows a summary of focus group discussions as well as structured interviews held at each of the selected sites of the survey.

### Table 1.1: Summary of FGDs and SIs conducted during the survey

<table>
<thead>
<tr>
<th>Level</th>
<th>FGDs</th>
<th>SIs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Pilot (Kiboga Town &amp; Ntunda Sub-county)</td>
<td>2</td>
<td>28</td>
</tr>
<tr>
<td>2 Kampala</td>
<td>2</td>
<td>38</td>
</tr>
<tr>
<td>3 Municipalities (3x1)</td>
<td>3</td>
<td>45</td>
</tr>
<tr>
<td>4 Towns – Central region (1x1)</td>
<td>1</td>
<td>16</td>
</tr>
<tr>
<td>Towns – Other regions (3x2)</td>
<td>6</td>
<td>91</td>
</tr>
<tr>
<td>5 Sub-Counties by region</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central (4 sub-counties @ 1)</td>
<td>4</td>
<td>67</td>
</tr>
<tr>
<td>Eastern (4 sub-counties@ 1)</td>
<td>4</td>
<td>60</td>
</tr>
<tr>
<td>Northern (4 sub-counties@ 1)</td>
<td>4</td>
<td>60</td>
</tr>
<tr>
<td>Western (4 sub-counties@ 1)</td>
<td>4</td>
<td>61</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>30</strong></td>
<td><strong>466</strong></td>
</tr>
</tbody>
</table>

### 1.3. Structure of the report

The report is organised in seven chapters excluding the executive summary. Apart from the introduction, the report presents the key characteristics of non-farm household enterprises covered by the survey in Chapter 2. The characteristics covered include: age, gender and education of household owner; residence, income levels, and employment creation by household enterprises; economic activities undertaken and motivation to start a household enterprise.

The main findings of the study are presented in chapters 3, 4, 5, 6 and 7 covering: support to HEs; adequacy of financial services; access to proper worksites as well as key infrastructure; access to training and business development services (BDS), and access to appropriate technology respectively. As much as is applicable, each chapter summarises relevant policies, laws and regulations affecting the operations of HEs if any, before presenting findings from the field. It also discusses programs and institutions that support HEs and possible modifications perceived by HEs as necessary to improve effectiveness.
Chapter 2

Characteristics of Household Enterprises Surveyed

2.1. Introduction
The chapter presents characteristics of household enterprises participating in the study. The characteristics selected are: age; gender and education of HE owner; number of children of HE owner; residence, registration status; trading license status; income levels, and employment creation; economic activities undertaken and motivation to start HE. Wherever the reference is made in this chapter, rural based HEs includes enterprises found in the rural growth centres while urban based HEs includes enterprises found in the towns, municipalities and the city.

2.2. Age of HE owners
Two thirds of all owners of household enterprises surveyed were less than 40 years of age (Table 2.1, Fig 2.1). However, contrary to expectations the number of owners aged less than 20 years was only 2%. This is probably due to the methodology used in selecting entrepreneurs to participate in the survey. Since the number of respondents needed was much smaller than the number of entrepreneurs who usually came to the venue for the meetings, thanks to the effective mobilisation by the local authorities, it was a standard practice to involve all present in identifying the economic activities represented in the group and thereafter to ask entrepreneurs from the same activity to select one person to represent their sector in the discussion. It is possible that in the process, the more senior entrepreneurs in the group were selected at the expense of their junior colleagues.

| Age distribution of household enterprise owners |  |
|---|---|---|---|---|---|---|
| Age | <20 | 20-29 | 30-39 | 40-49 | 50-59 | ≥60 |
| % | 2 | 29 | 35 | 19 | 9 | 6 |
| Cumul % | 2 | 31 | 66 | 85 | 94 | 100 |

Fig 2.1: Age distribution of HE owners

2.3. Gender of HE owners
At 72%, ownership of household enterprises covered by the survey was heavily dominated by the male gender (Fig. 2.2). This is consistent with previous studies (MFPED, 2008). However, it is not clear to what extent the method of selection described in 2.2 above could have influenced the result.
2.4. Residence of HE owners
The residence of owners of household enterprises covered by the survey was evenly distributed with rural based and urban based HEs accounting for 58% and 42% respectively (Fig. 2.3). This is by no means a reflection of the HEs national distribution, as the share was embedded in the design of the sample.

2.5. Educational standard of HE owners
The number of HE owners in the sample whose educational standard is P3 and below is only 12% (Fig 2.4). According to the data more than 50% of the HE owners surveyed had attained a standard of ~O||| Level and beyond. This would imply that most HE owners are sufficiently literate to benefit from skills training if it became a strategy to empower this sector with training.
2.6. Number of children of HE owner

The mean number of children of HE owners covered by the survey was 4.7 with a standard deviation of 2.5 (Table 2.1a). In all, HE owners with 6 children and below were 75% of all HE owners covered by the survey.

**Table 2.1a: Number of Children of HE owners**

<table>
<thead>
<tr>
<th>Number of children of HE owner</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share</td>
<td>9.3</td>
<td>14.1</td>
<td>15.4</td>
<td>12.1</td>
<td>12.8</td>
<td>11.1</td>
<td>7.8</td>
<td>5.5</td>
<td>11.8</td>
</tr>
</tbody>
</table>

Mean: 4.7, Std dev: 2.5

2.7. HEs that are registered

Nearly three quarters of all HEs surveyed have not registered their businesses (Fig 2.5). In spite of this situation, inability to register was not presented among the key challenges faced by HEs.

**Table 2.1b: Where HE registered**

<table>
<thead>
<tr>
<th>Where registered</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reg General</td>
<td>9.3</td>
</tr>
<tr>
<td>District</td>
<td>14.4</td>
</tr>
<tr>
<td>Sub county</td>
<td>71.2</td>
</tr>
<tr>
<td>Others</td>
<td>5.1</td>
</tr>
</tbody>
</table>

**Table 2.1c: Where HE registered by Residence**

<table>
<thead>
<tr>
<th>Where HE is registered by Residence (Share)</th>
<th>Sub-County</th>
<th>District</th>
<th>Reg General</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>77.0</td>
<td>13.1</td>
<td>4.9</td>
<td>4.9</td>
</tr>
<tr>
<td>Urban</td>
<td>64.9</td>
<td>15.8</td>
<td>14.0</td>
<td>5.3</td>
</tr>
<tr>
<td>All</td>
<td>71.2</td>
<td>14.4</td>
<td>9.3</td>
<td>5.1</td>
</tr>
</tbody>
</table>

Among HE owners who indicated that their businesses were registered, only 9% were registered with the Registrar General (Table 2.1b). Nearly three quarters of all HEs covered by the survey were registered with the sub-county only.

Although the proportion of HEs registering with the Register General is higher among urban based HEs, the overall pattern is the same. There seems to be a tendency among HE owners, to register their enterprises with the sub-county (division in the case of urban based HEs) rather than the Registrar General of companies (Table 2.1b, 2.1c).
Fig 2.5: Registration status of HEs

Is your business registered?

- Yes: 28%
- No: 72%

2.8. HEs that have a trading license
The majority (56 percent) of HEs surveyed, held a trading license (Table 2.1d). In addition to the trading license, there are types of businesses that are required to obtain a special permit in order to operate. 34 percent of all HEs covered by the survey held such permits.

Table 2.1d: HEs with a trading license or other license

<table>
<thead>
<tr>
<th>Trading License held</th>
<th>Other license/permit held</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Criterion</strong></td>
<td><strong>Share</strong></td>
</tr>
<tr>
<td>Yes</td>
<td>56</td>
</tr>
<tr>
<td>No</td>
<td>44</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

The proportion of HEs holding a trading license was slightly higher among urban based HEs than it was among rural based HEs with the former at 60 percent and the latter at 53 percent (Table 2.1e).

Table 2.1e: HEs with a trading license by residence (share)

<table>
<thead>
<tr>
<th>Residence</th>
<th>HEs with a license</th>
<th>HEs without a license</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>53</td>
<td>47</td>
<td>100</td>
</tr>
<tr>
<td>Urban</td>
<td>60</td>
<td>40</td>
<td>100</td>
</tr>
<tr>
<td>All</td>
<td>56</td>
<td>44</td>
<td>100</td>
</tr>
</tbody>
</table>

2.9. Income Levels of HEs
According to data from the field, the average monthly turnover realised by the vast majority (73%) of HEs covered is less than U Shs 500,000 (US$200) (Table 2.2, Fig.2.6). The data also reveals that as many as 1 in every 3 HEs covered is making less than U Shs 100,000 (US$50) in monthly turnover.

The data shows that most female owned HEs are making less than their male counterparts with 66 percent of male owned HEs making less than U Shs 500,000 per month, as opposed to nearly all (92%) female owned HEs found to be falling in this category (Table 2.3).
Fig. 2.6: HEs’ average monthly turnover

Table 2.2: Monthly Turnover of HEs

<table>
<thead>
<tr>
<th>Average monthly turnover (U Shs '000)</th>
<th>&lt;100</th>
<th>100-499</th>
<th>500-999</th>
<th>1,000-4,999</th>
<th>≥5,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent</td>
<td>32</td>
<td>41</td>
<td>11</td>
<td>13</td>
<td>3</td>
</tr>
<tr>
<td>Cumul %</td>
<td>32</td>
<td>73</td>
<td>84</td>
<td>97</td>
<td>100</td>
</tr>
</tbody>
</table>

A review of turnover by residence shows that urban based HEs are relatively more successful with 1 in every 3 HEs making a monthly turnover of more than U Shs 500,000, while only 1 in every 5 rural based HEs have been found in this category (Table 2.4).

Table 2.3: Monthly turnover by Gender

<table>
<thead>
<tr>
<th>Gender</th>
<th>&lt;500</th>
<th>500-999</th>
<th>1,000-4,999</th>
<th>≥5,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>66</td>
<td>13</td>
<td>17</td>
<td>4</td>
</tr>
<tr>
<td>Female</td>
<td>92</td>
<td>4</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>All</td>
<td>73</td>
<td>11</td>
<td>13</td>
<td>3</td>
</tr>
</tbody>
</table>

A review of turnover by region reveals that Kampala based HEs are easily the most successful with more than half making a turnover of more than U Shs 500,000- (Table 2.5).

Table 2.4: Monthly turnover by Residence

<table>
<thead>
<tr>
<th>Residence</th>
<th>&lt;500</th>
<th>500-999</th>
<th>1,000-4,999</th>
<th>≥5,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>78</td>
<td>11</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>Urban</td>
<td>67</td>
<td>10</td>
<td>18</td>
<td>4</td>
</tr>
<tr>
<td>All</td>
<td>73</td>
<td>11</td>
<td>13</td>
<td>3</td>
</tr>
</tbody>
</table>

Table 2.5: Monthly turnover by Region

<table>
<thead>
<tr>
<th>Region</th>
<th>&lt;500</th>
<th>500-999</th>
<th>1,000-4,999</th>
<th>≥5,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central</td>
<td>78</td>
<td>7</td>
<td>11</td>
<td>4</td>
</tr>
<tr>
<td>Eastern</td>
<td>73</td>
<td>13</td>
<td>13</td>
<td>0</td>
</tr>
<tr>
<td>Kampala</td>
<td>45</td>
<td>12</td>
<td>33</td>
<td>9</td>
</tr>
<tr>
<td>Northern</td>
<td>90</td>
<td>4</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>Western</td>
<td>63</td>
<td>16</td>
<td>16</td>
<td>4</td>
</tr>
<tr>
<td>All</td>
<td>73</td>
<td>11</td>
<td>13</td>
<td>3</td>
</tr>
</tbody>
</table>
On the other hand, Northern region based HEs appear to be fairing poorest, with only 1 in every 10 HEs making it to this bracket, followed by Eastern and Central (without Kampala), with only 1 in every 4 HEs making it to this bracket.

As expected the monthly net turnover realised by household enterprises is more bleak than the picture painted by the gross turnover, with the overwhelming majority (92%) earning less than U Shs 500,000 (Fig 2.7).

Fig. 2.7: HEs’ Net Monthly Income (U Shs ,000)

2.10. Employment creation by HEs
According to the data from the field, a small majority (57%) of the HEs represented in the survey were employing one or more persons in their enterprises (Fig 2.8, Table 2.6). The rest (43%) were own account, engaging no one else in their business.

Fig. 2.8: No of persons employed per HE (%)
In terms of dependence on employees, the wholesale sector seems to be more employee dependent with 100% of HEs in the sector employing 2 or more persons. Hotels & restaurants, and Education come next with 77% and 75% of HEs in these sectors employing one or more persons. Manufacturing comes next with 67% of the HEs in the sector employing one or more persons. However, in terms of total numbers, the sector employs more persons that all the others in this category accounting for 25% of all jobs created by all HEs surveyed (Table 2.7).

**Table 2.6: Number of persons employed per HE by Sector**

<table>
<thead>
<tr>
<th>Number of persons employed by HEs (excluding owner) by Sector</th>
<th>Sector share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector</td>
<td>0</td>
</tr>
<tr>
<td>Agriculture</td>
<td>38%</td>
</tr>
<tr>
<td>Mining</td>
<td>100%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>33%</td>
</tr>
<tr>
<td>Construction</td>
<td>43%</td>
</tr>
<tr>
<td>Sales, Maintenance &amp; Repair of M/Vehicles</td>
<td>46%</td>
</tr>
<tr>
<td>Wholesale</td>
<td>0%</td>
</tr>
<tr>
<td>Retail &amp; Repair of personal &amp; household goods</td>
<td>49%</td>
</tr>
<tr>
<td>Hotels &amp; restaurants</td>
<td>23%</td>
</tr>
<tr>
<td>Transport &amp; Communications</td>
<td>57%</td>
</tr>
<tr>
<td>Financial &amp; Other Services</td>
<td>39%</td>
</tr>
<tr>
<td>Public admin/ education</td>
<td>25%</td>
</tr>
<tr>
<td>Health &amp; social work</td>
<td>40%</td>
</tr>
<tr>
<td>All sectors</td>
<td>43%</td>
</tr>
</tbody>
</table>

However, the study also found that the proportion of HEs employing more than 2 persons was only 21%. Accordingly the overwhelming majority (79%) are employing only up to 2 people each.

**Table 2.7: Number of jobs created by HEs by Sector (share)**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Jobs created (share)</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Including owners</td>
<td>Excluding owners</td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>1.9</td>
<td>2.1</td>
<td></td>
</tr>
<tr>
<td>Mining</td>
<td>0.3</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>22.4</td>
<td>24.8</td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>1.8</td>
<td>1.7</td>
<td></td>
</tr>
<tr>
<td>Sales, Maintenance &amp; Repair of M/Vehicles</td>
<td>7.0</td>
<td>6.3</td>
<td></td>
</tr>
<tr>
<td>Wholesale</td>
<td>1.2</td>
<td>1.7</td>
<td></td>
</tr>
<tr>
<td>Retail &amp; Repair of personal &amp; Household goods</td>
<td>41.2</td>
<td>38.7</td>
<td></td>
</tr>
<tr>
<td>Hotels &amp; restaurants</td>
<td>5.9</td>
<td>7.1</td>
<td></td>
</tr>
<tr>
<td>Transport &amp; Communications</td>
<td>5.0</td>
<td>4.2</td>
<td></td>
</tr>
<tr>
<td>Financial &amp; Other Services</td>
<td>9.5</td>
<td>9.7</td>
<td></td>
</tr>
<tr>
<td>Public admin/ education</td>
<td>1.0</td>
<td>1.3</td>
<td></td>
</tr>
<tr>
<td>Health &amp; social work</td>
<td>2.7</td>
<td>2.5</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
According to the data from the field, the variation between the number of people employed by rural based HEs and their urban based counterparts is negligible (Table 2.8). A review of employment creation by gender of HE owners reveals that male owned HEs are creating more job opportunities than female owned HEs, with 64% of all male owned HEs covered employing up to two people each while the same ratio for female owned HEs is only 40% (Table 2.9).

<table>
<thead>
<tr>
<th>Table 2.8: No of employees in HE by Residence</th>
<th>Table 2.9: No of employees in HE by Gender of owner</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residence</td>
<td>0</td>
</tr>
<tr>
<td>Rural</td>
<td>41.9</td>
</tr>
<tr>
<td>Urban</td>
<td>43.3</td>
</tr>
<tr>
<td>All</td>
<td>42.5</td>
</tr>
</tbody>
</table>

A review of employment creation by region reveals that Eastern based HEs are creating more job opportunities than their counterparts with 69% of HEs in the region employing up to 2 people each (Table 2.10). The poorest performing in this respect is Northern region with only 48% of her HEs achieving the same rate of employment creation.

2.11. Economic Activities undertaken by HEs

(a) Economic Activities undertaken by residence

The economic activities undertaken by household enterprises cut across sectors and residence types although Services and Transport HEs appear to be more prevalent in the urban than they are in the rural areas. While retail trade and manufacturing are the dominant sectors overall with a combined share of 63.7% of all household enterprises surveyed, the sectors' level of dominance appears to be more pronounced among rural based HEs accounting for 43.7% and 23.8% of all rural based HEs respectively against the equivalent level for urban based HEs of 40.9% and 17.7% respectively (Table 2.11). A full list of activities undertaken by HEs surveyed is carried in Annex 3.

<table>
<thead>
<tr>
<th>Table 2.11: Economic Activities undertaken by HEs by Residence (Share)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector</td>
</tr>
<tr>
<td>Agriculture</td>
</tr>
<tr>
<td>Mining</td>
</tr>
<tr>
<td>Manufacturing</td>
</tr>
<tr>
<td>Construction</td>
</tr>
<tr>
<td>Sales, Maintenance &amp; Repair of M/Vehicles</td>
</tr>
<tr>
<td>Wholesale</td>
</tr>
</tbody>
</table>
Retail & Repair of personal & household goods | 43.7 | 40.9 | 42.5  
Hotels & restaurants | 5.6 | 4.8 | 5.3  
Transport & Communications | 4.4 | 7.0 | 5.5  
Financial & Other Services | 7.1 | 12.4 | 9.4  
Public admin/ education | 1.2 | 0.5 | 0.9  
Health & social work | 3.2 | 2.7 | 3.0  
**Total** | **100** | **100** | **100**

(b) Economic Activities undertaken by age of HE owner

According to the data from the field, the age of an HE owner appears to bear some influence on the type of economic activity undertaken with the majority (58%) of HE owners that are less than 30 years old, showing a much higher interest in the Services and Transport sectors than they have done for the other sectors (Fig. 2.9, Table 2.12).

**Fig. 2.9: Economic Activities undertaken by age of the HE Owner**

The reason for this tendency may have been implied by responses received during the focus group discussions to the question regarding participants' motivation to start their enterprises. In response to this question, many indicated that they chose their enterprise because it required little capital to get started (Section 2.9 below). Many of the HEs in this age bracket who held this perception tended to start enterprises in these sectors.

A case in point is Simon Lesa, a resident of Lorengedwat Sub-county, Nakapiripirit District, Karamoja Sub-Region who, after failing to raise the capital necessary to start a family shop, decided to commence business as a broker (assisting truck drivers to find customers), which did not require much, if any capital to get going (Chapter 4).

On the other hand, the overwhelming majority (>75%) of HE owners that are more than 30 years old, showed a much higher interest in the Manufacturing, and Hotels & Restaurants sectors (Figs 2.9 & 2.10 and Table 2.12).
Fig 2.10: Age distribution of HE owners in Manufacturing & Hotels/Restaurant Sectors

This is possibly because this age group may be more able to mobilise the resources necessary to finance the capital requirements involved in the more capital demanding ventures of these sectors, in addition to having had more time to accumulate and reinvest business profits.

Table 2.12: Economic activities by age of HE Owner (share)

<table>
<thead>
<tr>
<th>Sector</th>
<th>&lt;30 years</th>
<th>≥30 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>23.7</td>
<td>76.3</td>
</tr>
<tr>
<td>Sales &amp; repair of MVs</td>
<td>34.4</td>
<td>65.6</td>
</tr>
<tr>
<td>Retail</td>
<td>27.4</td>
<td>72.6</td>
</tr>
<tr>
<td>Hotels &amp; restaurants</td>
<td>21.7</td>
<td>78.3</td>
</tr>
<tr>
<td>Transport &amp; Communications</td>
<td>58.3</td>
<td>41.7</td>
</tr>
<tr>
<td>Financial &amp; other services</td>
<td>58.5</td>
<td>41.5</td>
</tr>
<tr>
<td>Other</td>
<td>23.1</td>
<td>76.9</td>
</tr>
<tr>
<td>All sectors</td>
<td>31.1</td>
<td>68.9</td>
</tr>
</tbody>
</table>

(c) Economic Activities undertaken by gender of owner

According to the data from the field, the gender of the owner of a household enterprise may have an influence over what economic activity he/she may chose to start. It has been found that while half all women HE owners surveyed were engaged in the Retail sector, only 2 out of every 5 men were engaged in the same sector (Fig 2.11, Table 2.13).

Table 2.13: Economic activities of HEs by gender of owner (share)

<table>
<thead>
<tr>
<th>Econ activity</th>
<th>Male</th>
<th>Female</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>22</td>
<td>20</td>
<td>21</td>
</tr>
<tr>
<td>Sales, maintenance &amp; repair of MVs</td>
<td>9</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>Retail, repair of household goods</td>
<td>40</td>
<td>50</td>
<td>42</td>
</tr>
<tr>
<td>Hotels &amp; restaurants</td>
<td>3</td>
<td>11</td>
<td>5</td>
</tr>
<tr>
<td>Financial &amp; other services</td>
<td>9</td>
<td>11</td>
<td>9</td>
</tr>
<tr>
<td>Other sectors</td>
<td>18</td>
<td>6</td>
<td>14</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>
In addition, while 11% of all women owners of HEs surveyed were operating in the Hotels & Restaurants sector, only 3% of the men surveyed were in the sector. On the other hand, while 9% of all men surveyed were operating in the Sales & repair of motor vehicles sector, only 3% of the women HE owners surveyed were operating in the sector. Presumably, this could be because repair of motor vehicles in Uganda is traditionally a manual job dominated by the men.

In addition while 18% of all men owners of HEs surveyed were engaged in the –Other‖ sectors, the equivalent ratio for the women folk was only 6%. The other sectors includes: Agriculture (non-farm), Mining, Construction, Wholesale, Transport & Communications, Education, Health & Social Work sectors, and accounted for 14% of all HE owners surveyed.

2.12. Motivation to start enterprise

Different respondents in focus groups across the country were motivated by different factors to start their household enterprises. There was no significant difference between the regions and there were minor differences between rural and urban based household enterprises. However, while in the majority of cases, the decision to start an enterprise was a forced one, there were many cases where a deliberate decision had been taken to move from paid employment or from some other full time activity to start a household enterprise. Entrepreneurs started their enterprises as a result of a deliberate decision gave the following as their motivation:

- To get independent income;
- Had acquired the skill as an apprentice and wanted to practice the trade;
- Was experienced in salon business, and saw there was none in the village;
- Inherited the business from the family;
- Was a trained nurse, and wanted a side income to supplement my small salary;
- Wanted to take advantage of the newly created district in the local area;
- Wanted to diversify sources of income;
- Wanted to raise funds to provide medical care for the family;
- To raise fees for children;
To supplement salary
• Wanted to practice the trade in which trained;
• To raise funds to take care of orphans
• To accumulate personal savings
• Was influenced by friends

As mentioned above, the majority of the entrepreneurs surveyed, were forced by circumstances to start their enterprises. In this regard there were two main factors behind the forced decisions namely dropping out of school and dropping out of employment. According to their responses, those who dropped out of school did so either due to lack of school fees or because they did not pass well enough to advance to the next grade. Most of the people dropping out of employment had been retrenched and had not succeeded in getting other jobs. In all these cases, the persons affected found themselves out of employment and although they have given a variety of reasons for starting their enterprises, their main objective was to earn a living. Most entrepreneurs who started their enterprises because they had no choice gave the following as their motivation:

• The business required little start up capital and appeared profitable;
• Wanted to earn a living;
• Had dropped out of school and wanted business requiring small start up capital;
• After he was retrenched, fish mongering was the best option;
• Found easy access to raw materials and knew where to find a market;
• Identified unmet demand in the area and took advantage of the community;
• After retrenchment, it was difficult to get formal jobs and decided to start the enterprise;
• To supply the community’s unmet demand for reliable water supply;
• A cheap source of supplies was the motivation to go into dealing in fresh fruits;
• Was influenced by friends

Altogether, 140 different motives for starting enterprises have been given by different owners of HEs. A full list of these motivators has been incorporated in this report as Annex 4.
Chapter 3
Policy, Institutional & Support environment

3.1. Introduction
In Uganda, and indeed in the other countries of Africa, there are policies that either explicitly promote (or restrict) informal income-generating activities, including household enterprises, and there are policies that may have unintended consequences for them. These policies arise at the national, as well as at the local levels of government. In addition there are programs and institutions that seek to support HEs operating at the national and at the local level. During its preparatory stage, the study identified these policies, as well as the programs and institutions from reports and other secondary sources. As part of the field survey, focus groups covered by the study identified specific policies, laws and regulations that promote (or restrict) HE operations. The groups also identified programs and institutions that support HE operations including associations started by HEs.

This chapter presents these policies, laws and regulations as well as programs and institutions that HEs find either supportive or restrictive of their operations. The findings about policies, laws and regulations are presented in a separate section, describing how, according to HEs surveyed, the policies affect their operations, and what intervention they perceive to be necessary to eliminate the harmful effects of such policies. Findings about programs and institutions supporting HEs are presented in separate sections from the section on policies.

3.2. Policies, Laws and Regulations
(a) Business registration and Licensing
The study has found that there are aspects about trade licensing which HEs surveyed find very supportive but there are also others that they find restricting. The supportive aspects include trade liberalisation, which makes it possible for them to operate anywhere they find a market for their merchandise. They also find URA anti-smuggling operations supportive as they help to minimise the volume of cheap goods smuggled into the country that if not controlled could close them out of the market.

However, household enterprises have concerns.

(i) Arbitrary license fees: While all traders are required to pay for and acquire a trade license annually, HEs are concerned at the lack of uniformity in the fees charged. A case in point is narrated by Jane from Nakawa market in the box below:

"-The practice of charging different people different license amounts of fees when they are engaged in the same trade is very suspicious. Why do they charge some people 80,000/=, others 50,000/=, and yet others pay as low as 20,000/= and it is not about the size of the business?"

(ii) HEs are concerned that they do not see any benefits from the taxes they pay. A case in point is narrated by one Eddie operating a muchomo (meat roasting) business in Myanzi trading centre, Mityana, and is presented in the box below:

"-Before I paid for the trade license and the health permit I was arrested and forced to pay for everything including a fine. But I do not see any benefit since I still operate from the open in the road reserve. They should at least build a shelter for us meat roasters so that we can see the benefit of paying all this money"
(iii) Procedures to get permits and license and other requirements
HEs covered by the survey are concerned that the procedure involved in applying for licenses and permits, which also requires applicants to move from office to office for different signatures, is too long and tedious.

(iv) Interventions perceived by HEs as necessary to address concerns raised:
- Train Law enforcement officers to handle people well when trying to check their papers.
- Introduce one-stop-shop arrangement for motor vehicle licensing to minimise delays, and ensure that officials concerned are in office on time and stay till the official closing time;
- Involve HEs representatives during formulation of policies, laws and regulations affecting their operations;
- Sensitise HEs regarding policies and laws relating to their operations so that they do not become victims of ignorance;
- Trade Licensing: Grading enterprises should be uniform and according to size of the business, and stakeholders should be involved in the process.

(b) Taxation
HEs have the following concerns about existing taxation practices.

(i) Security: While household enterprises appreciate the policy of government regarding security, they are concerned that not enough is being done by local government especially at the sub-county level, to control burglars who break in their business premises at night and steal their merchandise. They are concerned that while they pay trading license fees and other taxes, government is not doing enough to protect their property.

(ii) Too many taxes, and mistimed tax collection: Market vendors are concerned that there is a tendency to force them to pay market entry fees which is unfair because, "how can you find the money to pay when you have not yet sold your merchandise?"

(iii) Too many taxes: HEs feel that they are made to pay too many taxes. A typical example is narrated by one Michael, a carpenter operating from Kisoro in the box below.

> I pay tax of Shs 4,500 to the sub-county to cut timber, then I pay tax of Shs 700 for each piece of timber that I cut to the NFA, then I pay Shs 40,000 for a license at the Town council. In the end its hard to make profit and sustain this business when my working capital is greatly eaten up by taxes. I try to survive by charging high prices but this has discouraged my clients from buying from my workshop. This has affected my business growth.

(iv) Highhandedness: HEs are concerned that urban authorities are high handed in their dealings with them, especially when due to factors beyond their control they are unable to pay their taxes on time. Using the delays as an excuse, the urban authorities descend upon them with malice, and confiscate or destroy their goods. The resources they lose in the process, which at times will have taken many years to build, leave them devastated.

(v) Lack of uniformity: HEs are concerned that the practice of charging a uniform tax to all people operating in the market is not fair because it does not take into account differences in size of businesses resulting in a very high burden for the smallest enterprises.
(vi) **Double taxation:** In some cases, HEs suffer double taxation. The cases of Ben and Norah, vending Muchomo and milk respectively in Matete Sub-county narrated in the box below are typical examples of this point.

Ben employs one person to help him roast meat. He pays Shs 200- per day for himself and Shs 200- for his employee bringing the total from his enterprise to Shs 400- daily. Norah who also employs one person was also asked to pay the same amount for herself and for her employee as well.

(vii) **Over-taxation:** HEs are concerned that the abolition of graduated poll tax had given some people some relief but the taxes introduced in replacement of the same recently have resulted in a much higher tax burden than what they used to pay as graduated poll tax (GPT).

**Intervention perceived by HEs as necessary to address the concerns raised**
HEs surveyed have observed that the tax burden they bear and the cruel methods used by the authorities to collect the same deprive them of the resources they would have re-invested in their business, and believe that the following interventions could address their plight.

- The number of taxes paid by household enterprises should be reduced;
- Market dues should be phased out since traders are already paying trading license fees;
- Local authorities should endeavour to ensure that traders get tangible benefits from the taxes they pay inform of security, good roads, water, electricity and a clean environment;
- Local authorities should conduct taxation awareness programs for stakeholders, before carrying out tax assessments which should be based on size of the business.

(c) **Other policies**

**Public Health:** HEs appreciate the positive aspects of the Public Health policy which supports their operations and wellbeing. The requirement that food vendors undergo tests before they are granted permits to operate is appreciated because it promotes hygiene among food vendors and helps prevent the spread of sanitary related illnesses and contagious diseases from food sellers. However, household enterprises have some concerns.

(i) **Concerns of HE owners:**

- There are also landlords who defy the public health act by not providing necessary sanitary facilities such as good latrines and water drainage systems, and when tenants who are usually HEs raise the issue, they are threatened with eviction;
- HEs are also concerned that some landlords are issued with occupation permits when their premises have not been inspected which is against the provisions of the act.

(ii) **Intervention perceived by HEs as necessary to address concerns expressed:**

- The authorities should enforce the law without discrimination in order for the protection enshrined in the law to be enjoyed by all;
- Food vendors and owners of eating places in general should be given training in the best practice for operating a food joint before issuing them with medical certification.

**UNBS (Uganda National Bureau of Standards)**

HEs appreciate the value and support that the policy behind the creation of the Uganda National Bureau of Standards accords their business operations. In particular they appreciate that this policy protects consumers from harmful products peddled by unscrupulous profiteers. However household enterprises have concerns.
(i) **Concerns**
HEs are concerned that the UNBS is not doing enough to protect them from counterfeits that have flooded the market making it difficult for them to continue in business. A typical example of this concern is articulated by one Topher a dealer in music products from Nakawa Market in the box below:

> - We feel that Government has let us down by failing to supervise and streamline UNBS because it is the one behind the heavy losses we incur in this business because how can you buy a CD or video deck and it collapses even before you use it? Who inspected this item before it found its way into the country?||

The other example is narrated in the box below by Sarah, who has been dealing in kitchenware from Kawempe since 2002.

> - My business has been doing well, but of late I am incurring many losses due to counterfeit products. One time I bought saucepans and kettles for my shop and when I was selling to a customer three days later, I realised that the pans had developed holes! I found it very alarming since I always buy items marked with labels of reputable companies||

The other concerns arise from the charges levied by the department of weights and measures. One of the most common concerns is the annual charge of Shs 52,000- which is considered to be too high. HEs also felt that the UNBS officials are hostile and not transparent in their dealings. The Kibito focus group, Kabarole District was concerned about charges levied when UNBS officials are correcting errors found on weighing scales. According to them, charges levied range from Shs 60,000 to as high as Shs 250,000 nearly the same as the original purchase price.

(ii) **Interventions perceived by HEs as necessary to address the concerns raised:**
HEs feel very strongly about the losses they incur due to the negligence of UNBS and had the following proposals to make:
- That UNBS officials should always notify traders when they are coming to their places and those traders who can afford should be allowed to take their weighing scales to Kampala;
- HEs recommend that weighing scales intended for trading purposes should be marked accordingly;
- HEs proposed that the Bureau’s services be decentralised.

**Forestry Policy:** HEs are concerned that forestry officials prevent them from burning charcoal and yet the population depends on charcoal for cooking and for many HEs the activity is their only source of livelihood. They think it’s just an excuse for forestry officials to harass and extort bribes from poor people.

**NEMA Policy:** HEs are concerned that NEMA policy prevents them from carrying out any activities in the wetlands. The most direct effect of this policy is the closure of HEs that depend on brick making as a source of livelihood. HEs from Muko in Kabale District were also concerned that the NEMA policy is adding to the pain of unemployment by preventing people from harvesting papyrus and other wetland vegetation which they use in mat making. Of late mat making and other crafts using as input papyrus and other water based vegetation have become a source of work for a number of people and they have no alternative source of livelihood.

**Fisheries Policy:** HEs engaged in the fisheries sector appreciate the importance of the Fisheries Policy and in particular its support for their operations through its protection of young fish from unscrupulous profiteers, whose indiscriminate fishing practices endanger the future of fish stocks in the national waters. However, HEs are concerned that Fisheries officials unfairly confiscate and destroy their stocks under the pretext that they are
dealing in immature fish. Fish mongers complain that such acts lead to heavy losses and argue that the officials should go after the fishermen and not the fishmongers who sell what has already been caught. The frustration of fishmongers was best articulated by one Omondi, from Nakawa market and is quoted in the box below:

-Fisheries officials do not go to fishing sites but wait in hiding along the routes ferrying fish to the markets. They demand very high bribes and we have no choice but to pay or else the fish will spoil. In the past some people refused to pay, their fish was confiscated for days until it was all rotten. Why don't they go to the fishing sites to arrest those who catch young fish?

3.3. Institutional and Support Environment

(a) Institutions started by HEs themselves

(i) Existence of HE Associations

While the study found many institutions started by HEs themselves in a number of areas covered by the study, it also found that such institutions were none existent in other areas. The sub-counties of Muko and Baala in Kabale and Apach districts ranked highest with 11 and 9 HE associations respectively, while Matete, Kuptany and Bugambe sub-counties from Apach, Kapchorwa and Hoima districts respectively ranked lowest with no HE associations at all (Table 3.1).

Table 3.1: Areas with the biggest and the smallest number of associations

<table>
<thead>
<tr>
<th>Region</th>
<th>Areas with the biggest no of assoc</th>
<th>Areas with the smallest no of assoc</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Area</td>
<td>No</td>
</tr>
<tr>
<td>Central</td>
<td>Nakawa Division</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Katikamu Sub-county</td>
<td>3</td>
</tr>
<tr>
<td>Eastern</td>
<td>Buseta Sub-county</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>Mayuge Town Council</td>
<td>6</td>
</tr>
<tr>
<td>Northern</td>
<td>Baala Sub-county</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>Pakwach Town Council</td>
<td>8</td>
</tr>
<tr>
<td>Western</td>
<td>Muko Sub-county</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>Katwe Kabatooro TC</td>
<td>8</td>
</tr>
</tbody>
</table>

The main reason given by Matete focus group, Sembabule District, for not starting HE associations was that, In 2004, the Chamber of Commerce mobilised them for the same purpose and just cheated them. However, the study found that the existence of many HE associations did not necessarily mean overwhelming satisfaction of HE needs. For example, although Katwe Kabatooro had a high number of HE associations (8 no, Table 3.1), the view held by the town’s focus group was that, these associations do not have internal cohesion and are not effective.

(ii) Motivation to start associations

While it is not always explicitly stated, the main driving force behind formation of most associations appears to be the desire to ease members’ access to credit, with 9 out of 10 associations identified having this motive. However, in some cases, such as one urban Market Vendors’ association and a Salon Operators association from an urban area, the motive was different. The market vendors sought to create a platform for articulating their case as they prepared to meet the authorities with a view to tabling their demand for the right to lease the market inter-alia. According to salon owners, they were facing harassment from the urban authority officials who were forcing them to undergo training using schools set up by them (the officials) in their private
capacities. They started the association to articulate their case and fight off these greedy officials. According to their objectives, it is clear that in many cases, HE owners start associations with a wide range of development objectives but end up concentrating on ‘savings and credit’ at the expense of other objectives.

(iii) Benefits realised by HEs
The most visible benefit realised by HEs from their associations is access to credit. The other key benefits realised include: Earning a dividend on shares held in their savings and credit groups; using the association as a shield against undue harassment from officials; advocating for members’ security of tenure over their worksites; and giving members a voice for articulating their concerns.

(iv) Weaknesses/challenges
Owing to the seriousness of their concerns about the performance of their associations, most HEs appeared to be more eager to discuss their associations’ weaknesses than they did benefits. Although the weaknesses and challenges seemed to be many and varied, the most critical appeared to revolve around governance issues as the comments of one focus group from Mbale indicated in the box below.

“The biggest challenge is the concentration of too much power in the hands of the chairman, which has left members with no means of removing him. The association has ended up becoming a personal property of the chairman.”

The main weaknesses and challenges identified by owners of HEs surveyed include the following:

- Lack of transparency especially in matters of financial management;
- Leadership wrangles;
- It is difficult to change leaders;
- Lack of trust/mutual suspicion among members and the leaders.
- Most associations are not registered and there is no motivation to do so.

(b) Institutions started by Govt and other agencies

(i) Existence of institutions initiated by govt and other agencies
The study found that in addition to institutions started by HEs themselves, many HEs surveyed were also being targeted by services offered by institutions started by government and other private sector actors. (A list of institutions identified is included as Annex 4).

Areas served by these institutions cut across urban and rural areas, with a rather disproportionate concentration of their operations in the urban areas. In terms of services rendered, it has been established that the majority of these institutions are involved in the delivery of financial services. The other services rendered include business, vocational and technical training, with the following areas of focus.

- Business management;
- Starting a business;
- Brick laying;
- Book keeping;
- Wild life management and
- FAL (Functional Adult Literacy).

Unfortunately, these services are not reaching many rural areas. For example out of the 16 rural sub-counties covered by the survey only Kupanyi, (Kapchorwa District) is offering brick laying, and only Mukongoro (Kumi District) is offering book keeping.
(ii) Benefits realised from the institutions
According to HEs surveyed, the main benefit realised from these institutions is access to financial services especially credit. The other benefits realised by HEs include access to vocational as well as technical training, and access to FAL program as well as support to women owned enterprises.

(iii) Areas of weakness/challenges: The main weakness found is that apart from financial services, there is very little attention being paid to addressing the other needs of household enterprises.

(c) Programs supporting HEs
   (i) Programs identified and areas of operation
According to the owners of HEs surveyed, there are very few programs supporting household enterprises operations in the areas covered by the survey. The only Government program they have seen is the NAADS program which according to them has an exclusive focus on farming enterprises. While many HEs surveyed conceded that they have heard of the PFA program, they were quick to point out that the program’s main focus was farming enterprises. The few programs which appear to have reached most areas are FAL and HIV/AIDS awareness programs.

(ii) Benefits realised by HEs
The FAL and HIV/AIDS programs which appear to have reached most of the areas covered by the survey are reported to have had a positive impact, with increased literacy levels as well as HIV/AIDS awareness levels among household enterprises.

(iii) Weaknesses/challenges
The biggest challenge found by the survey, is the prominent lack of programs designed to support the operations of HEs.

(d) Possible interventions perceived by HEs as necessary to address the concerns raised
According to HEs covered by the study, the main interventions perceived by them as being necessary to improve effectiveness of the programs and institutions seeking to support HE operations include the following:

(i) Institutions started by household enterprises themselves
   • Government should come up with strict laws on monitoring associations in order to ensure that they are relevant to their members’ needs and that they do not cheat them;
   • Government should run sensitization programs about associations on radio so that the people may understand the roles and responsibilities of members and the leadership;
   • Government should provide appropriate training to association leaders;
   • Another alternative strategy should be used to provide support to HEs other than through associations because the existing associations have not worked;
   • These institutions should be supported with training;
   • Associations should be supported directly by giving them soft loans and equipment;
   • Associations should be helped to change their leadership.

(ii) Institutions started by government and other private sector actors
   • HEs should be represented during planning processes of these institutions in order to ensure that their views are addressed particularly in policy formulation;
   • Government should provide training for HEs especially in business related skills to enable them improve efficiency and be able to survive in this competitive market;
• Government should intervene to regularise formation of associations to prevent unscrupulous people taking advantage of the unsuspecting population as in the case of COWE which defrauded a lot of people and vanished with their money.

(iii) Programs supporting HEs' operations
HEs covered by the survey appealed to Government to introduce a program similar to the NAADS program, with the mandate to develop the structures necessary to address the needs of non-farm household enterprises.

(iv) General
• Government should deploy patrol police to minimise crime on the roads;
• Local governments should strengthen night security at the sub-counties.
Chapter 4
Financial Services Delivery

4.1. Introduction
This chapter presents findings from the field regarding the main challenges, constraints and problems experienced by HEs seeking raise financing for their enterprises. The chapter defines the nature and extent of the challenge experienced and goes on to review the effectiveness of institutions trying to support HEs with financial services. The review covers member based institutions initiated by HEs themselves as well as institutions started by Govt and other private sector actors. The chapter then presents the main difficulties experienced by HEs seeking to access finance, the effect of lack of finance on HE operations and coping mechanisms employed by HEs experiencing the challenge. Finally the chapter presents possible interventions perceived by HEs as necessary to improve delivery of financial services.

4.2. Nature and extent of the challenge of lack of access to finance
Lack of access to finance is the most frequently cited challenge among HEs covered by the study (Fig 4.1).

Fig. 4.1: Main challenges faced by household enterprises

<table>
<thead>
<tr>
<th>Main challenges faced by HEs (%)</th>
<th>40</th>
<th>24</th>
<th>21</th>
<th>8</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inadequate capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of business knowhow</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of proper worksite</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inadequate skills</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Lack of access to finance which is also cited as inadequate capital, covers the various difficulties experienced by household enterprises trying to raise funds to finance activities and expenditure necessary to operate and grow their enterprises. The difficulties most frequently cited include the following:

- High costs involved in borrowing from financial institutions;
- Difficulties in procuring material inputs due to inadequate capital;
- Difficulties in acquiring tools and a suitable worksite due to inadequate capital;
- Difficulties in accumulating savings to finance start up capital;
- Inability to satisfy customer orders due to inadequate capital;
- Inability to raise bank credit due to lack of acceptable collateral;
- Cost of raw materials too high, unable to make the less costly bulk purchases;
- Costs of tools & spares, utilities and consumables such as fuel too high.

According to data from the field, inadequate capital is undoubtedly the most critical among all challenges experienced by household enterprises covered by the survey.
4.3. Programs, and institutions supporting delivery of financial services

4.3.1. Institutions started by HEs themselves
The study found that some of the areas covered by the survey were served by institutions started by HEs themselves, while others had no such service (Sec 3.3).

Weaknesses/challenges
The main weaknesses and challenges identified among institutions started by HEs include the following:

- The volume of savings is too low;
- Loan period allowed is too short;
- Interest paid on savings is too low;
- Lack of transparency especially in matters of financial management;
- Leadership wrangles are frequent;
- It is difficult to change leaders;
- Lack of trust/mutual suspicion among members and the leaders is common;
- A high incidence of delinquency in their loan portfolios;
- Inadequate loan capital;
- Reluctance to join savings and credit groups by some people for fear of fraudsters. The box below presents the sentiments of HEs in one of the major urban areas in the West.

Members appealed to government, to intervene and streamline requirements for starting associations in order to prevent unscrupulous people from taking advantage of the population like the promoters of COWE who defrauded a lot of people and vanished with their money||

4.3.2. Institutions started by Government & other private sector actors
The study has found that many HEs surveyed were also being targeted by services offered by institutions started by the government and other private sector actors. As mentioned in section 3.3 above, areas served by these institutions cut across urban and rural areas, and the majority of them are involved in the delivery of financial services.

The main financial services offered are influenced by the area of operation, with urban areas being served with a full range of financial services while rural areas are offered a relatively smaller range of services. According to HEs surveyed, the main benefit realised from these institutions is access to credit. With the exception of rural areas where only a few financial institutions have a presence, the other areas covered by the survey have access to a full range of financial services by MFIs and commercial banks.

Areas of weakness/challenges
According to HEs surveyed, while they appreciate the financial services offered, they do have concerns regarding some of the terms governing access. Details of these concerns include the following:

- Interest rate – too high;
- Grace period - lacking or too short when available;
- Loan processing period - too long.

As a result of their concerns, some household enterprises are reluctant to apply for loans from these institutions. For example members of Bugambe Sub-county focus group appeared fearful of taking loans from MFIs because they believe the interest rate charged is too high. They were also reluctant to join SACCOS because they had lost trust in the leadership. HEs were also concerned that MFIs give unsecured loans to salary earners but insist
on landed collateral when HEs apply for the same facilities, yet HEs are not in a position to meet this condition. According to HEs surveyed, the attitude of financial institutions towards them, which they consider unfriendly, has led some to resort to desperate means to satisfy collateral requirements as in the case from Luwero district reported in the box below.

Due to strict demand for collateral, there was one LC official who used to hire out his cow to people who wanted to get loans. The people would take photographs of his cow from different sites. The photos were accepted because it is possible for fresian cows to look alike.

4.4. Difficulties experienced by HEs seeking to raise finance

While many HEs try and fail to raise credit from financial institutions, even those who eventually succeed reported difficulties in the process. According to the study, the challenge affects both urban and rural based household enterprises almost equally, with 65% of rural based HEs and 71% of the urban based HEs reporting difficulties in raising finance for their enterprises (Table 4.1). Altogether, 68% of all households covered by the study reported having difficulties raising finance for their enterprises. While 32% of HEs covered indicated that they did not have any difficulty raising finance, only 10.7% of all HEs covered by the survey had obtained credit from financial institutions.

<table>
<thead>
<tr>
<th>Residence</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>65</td>
<td>35</td>
</tr>
<tr>
<td>Urban</td>
<td>71</td>
<td>29</td>
</tr>
<tr>
<td>Total</td>
<td>68</td>
<td>32</td>
</tr>
</tbody>
</table>

According to the HEs covered by the study, the main difficulties experienced in seeking to raise finance for their enterprises include: raising acceptable collateral to secure the borrowing; the rate of interest charged being too high for their type of enterprise; the maximum loan size allowed by the financial institution being too small to satisfy the purpose for the borrowing; the loan process being too long and tedious to deliver the required funds at the time needed; and the repayment period being too short to cover the need fully. Other household enterprises were put off by loan repayment terms that seemed too harsh. However, the biggest constraint preventing household enterprises from accessing finance from current sources seems to be lack of acceptable collateral followed by the high rate of interest accounting for 31% and 29% of the responses respectively (Table 4.2).

<table>
<thead>
<tr>
<th>Difficulty experienced</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raising collateral</td>
<td>31%</td>
</tr>
<tr>
<td>Interest rate too high</td>
<td>29%</td>
</tr>
<tr>
<td>Repayment terms</td>
<td>11%</td>
</tr>
<tr>
<td>Long/tedious loan process</td>
<td>7%</td>
</tr>
<tr>
<td>Maximum loan size too small</td>
<td>7%</td>
</tr>
<tr>
<td>Repayment period too short</td>
<td>6%</td>
</tr>
<tr>
<td>Other</td>
<td>9%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>
Although lack of collateral is a major barrier for all household enterprises seeking to borrow from financial institutions, it would appear to be marginally more significant among urban based HEs than it is for rural based HEs, at a share of 38% and 30% respectively (Table 4.3). On the other hand the barrier of high interest rate appears to be felt equally strongly while the maximum loan size would appear to be more significant among rural based HEs than it is for urban based HEs at a share of 8% and 4% respectively.

### Table 4.3: Difficulties experienced in accessing credit by residence (share)

<table>
<thead>
<tr>
<th>Difficulty experienced</th>
<th>Residence</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rural</td>
<td>Urban</td>
</tr>
<tr>
<td>Raising collateral</td>
<td>30</td>
<td>38</td>
</tr>
<tr>
<td>Interest rate too high</td>
<td>28</td>
<td>28</td>
</tr>
<tr>
<td>Maximum loan size too small</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>Repayment period too short</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Long/tedious loan process</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Repayment terms</td>
<td>13</td>
<td>10</td>
</tr>
<tr>
<td>Other</td>
<td>11</td>
<td>7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Contrary to expectations, “raising collateral” was a more significant barrier for the male entrepreneurs than it was for their female colleagues (Fig 4.2). While the barrier had a 38% share among male entrepreneurs, its share among the female was only 22%. On the other hand, the most significant barrier for female entrepreneurs was _high rate of interest_ with a share of 28% followed by _raising collateral_ with a share of 22%.

### 4.5. Effect of lack of finance on HEs operations

After failing to raise finance, many HEs continue to operate from a very small capital base and eventually collapse, dashing any hopes of growing their businesses to their full potential. Other households resort to other means to supplement their meagre capital, including borrowing from relatives and friends, while others start additional enterprises that do not need much capital. In some cases these alternatives take too long to deliver and at times fail to do so. Most HEs covered by the study seek credit to finance working capital, acquisition of equipment and other inputs, in response to perceived demand. Lack of capital is easily the most critical problem for most HEs.

Household entrepreneurs understand that without capital they cannot start let alone operate a business. When he failed to raise the capital necessary to start a shop in 1999, Simon from Lorengedwat, (Nakapiripirit) adopted a long term strategy to raise start-up capital as he explains in the box below:

> It is because I failed to raise the funds necessary to open a shop for supporting my family that I decided to take up the job of a broker (finding customers for vehicle owners).
4.6. Coping mechanisms employed by HEs affected by lack of finance

In their endeavour to raise capital, most household enterprises either borrow funds or equipment from friends and business associates while others resort to cheaper alternatives (Table 4.4). Others strive to improve the quality of their services in order to maintain their market share as they endeavour to build their own capital from internal operations.

The other most common coping mechanisms employed by household enterprises include: engaging in other activities that do not require much capital to get started; using personal savings; using safe choices and minimising credit sales by employing a strict credit policy.

Table 4.4: How HEs are coping with lack of finance by gender (share)

<table>
<thead>
<tr>
<th>Coping strategy employed</th>
<th>Male</th>
<th>Female</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Using borrowed funds/equipment</td>
<td>18</td>
<td>24</td>
<td>20</td>
</tr>
<tr>
<td>Resorting to cheaper alternatives</td>
<td>19</td>
<td>15</td>
<td>18</td>
</tr>
<tr>
<td>Striving to improve quality of services</td>
<td>15</td>
<td>11</td>
<td>14</td>
</tr>
<tr>
<td>Relying on other income sources</td>
<td>10</td>
<td>15</td>
<td>11</td>
</tr>
<tr>
<td>Using past savings</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Emphasising 'safe' choices</td>
<td>6</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>Employing a strict credit policy</td>
<td>5</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Other</td>
<td>19</td>
<td>17</td>
<td>19</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

4.7. Possible interventions perceived by HEs as necessary to improve effectiveness

Views of household enterprises

Household entrepreneurs participating in the study are unanimous in their appeal to financial institutions to provide them with loans that have a low rate of interest, and a repayment period of at least 12 months with a grace period.
Possible interventions perceived as necessary to improve access to finance
According to the views given by the HEs during the structured interviews 45% of the HEs require working capital finance which could be accommodated within a 12 month financing cycle as the enterprise builds up its own capital provided that payment of interest on borrowed funds can be made regularly as sales are made e.g. on monthly basis as some have suggested. This should not warrant grace period. However during the structured interviews, 29% indicated that they need equipment finance and term finance (17% and 12% respectively), to be able to address their credit needs. These are the HEs that need repayment periods exceeding 12 months stretching to 36 months, and it is these cases that need a grace period to allow them time to procure install and commission equipment before commencing serving of their loans.
Chapter 5
Access to Worksites and Infrastructure

5.1. Introduction
This chapter presents details regarding challenges and problems arising from lack of access to proper worksites, storage facilities and other infrastructure. The challenges are analysed with a view to establishing the following:
(a) The nature and extent of the constraint,
(b) The effect of the constraint on household the enterprises affected,
(c) The different methods used by HEs to cope with the constraint, and
(d) Possible interventions perceived by HEs as necessary to address the constraint.

5.2. Nature and extent of worksite related challenges
5.2.1. Lack of access to worksite including storage facilities
According to focus groups covered by the study, lack of a proper worksite is a very common challenge among entrepreneurs seeking to make a start in business. However, after finding a place and commencing business, household enterprises eventually experience the same challenge when rent is increased for the premises they occupy and or when their enterprise gets established and needs bigger premises to accommodate expanded operations. Indeed there are many entrepreneurs who did not give lack of premises as their main challenge but gave high cost of rent among others as a concern. With increasing costs in the economy, it is a common practice for landlords to increase rent for their buildings periodically. While some enterprises can afford the increased rent and stay on, others find it too expensive and unaffordable and seek less expensive premises. When rent for their premises increases to levels that are well beyond what their enterprise can afford, entrepreneurs begin the search for alternative premises. There are also cases where the success of a household enterprise generates growth that requires larger premises. Initially enterprises in this category try to cope as they look around but eventually make the decision and move. That is when the search for bigger alternative premises becomes urgent and the challenge a high priority.

Altogether, 11.4% of all HEs covered by the survey gave lack of access to a proper worksite including appropriate storage facilities as the main challenge faced by their enterprise (Table 5.1).

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to finance</td>
<td>40</td>
</tr>
<tr>
<td>Lack of business knowhow</td>
<td>24</td>
</tr>
<tr>
<td>Lack of proper worksite and infrastructure</td>
<td>21</td>
</tr>
<tr>
<td>Access to training &amp; BDS</td>
<td>8</td>
</tr>
<tr>
<td>Other</td>
<td>7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

**Key:**
(a) Access to finance covers: HEs experiencing the challenges of inadequate capital including working capital as well as equipment and term finance.
(b) Lack of business knowhow covers: HEs experiencing problems of doubtful debts and those struggling to find buyers for their goods and services.
(c) Lack of proper worksite and infrastructure covers: HEs experiencing difficulties in finding worksites including storage, as well as HEs experiencing electricity supply related constraints, and poor road infrastructure related problems.

(d) Access to training & BDS covers: HEs with lack of knowledge and skills that are key to their enterprises. It also includes HEs that are lacking access to appropriate technology.

5.2.2. Infrastructure

For purposes of the survey, the challenge of infrastructure covers HEs that are experiencing electricity supply related problems as well as HEs experiencing difficulties arising from poor road infrastructure. According to data from the field, 7.1% of all HEs surveyed were experiencing electricity related problems, while 2.3% were experiencing poor road infrastructure related difficulties. The challenge of access, reliability and cost of electricity in Uganda is a critical challenge especially among HEs involved in services, retail & repair of household items and manufacturing sectors (Table 5.2).

<table>
<thead>
<tr>
<th>Economic activity</th>
<th>Worksite</th>
<th>Electricity</th>
<th>Roads</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Mining</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>22</td>
<td>26</td>
<td>20</td>
<td>23</td>
</tr>
<tr>
<td>Construction</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Sales, Maintenance &amp; Repair of M/Vehicles</td>
<td>4</td>
<td>6</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Wholesale</td>
<td>0</td>
<td>0</td>
<td>20</td>
<td>2</td>
</tr>
<tr>
<td>Retail &amp; Repair of personal &amp; Household goods</td>
<td>52</td>
<td>23</td>
<td>50</td>
<td>42</td>
</tr>
<tr>
<td>Hotels &amp; restaurants</td>
<td>2</td>
<td>3</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Transport &amp; Communications</td>
<td>4</td>
<td>3</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>Financial &amp; Other Services</td>
<td>8</td>
<td>35</td>
<td>0</td>
<td>17</td>
</tr>
<tr>
<td>Public admin/ education</td>
<td>0</td>
<td>3</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Health &amp; social work</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Of all household enterprises experiencing this challenge, the overwhelming majority (84%) came from these sectors, with the services sector leading with 35%, followed by manufacturing with a share of 26% and lastly the retail & repair of personal and household goods sector at 23%. While rural based household enterprises are mostly affected by lack of access to electricity, urban based HEs which have access to electricity are most affected by the unreliable nature of the supply and high cost of utilisation. The challenge affects enterprises in different ways. For the enterprises lacking access, the constraint translates into lost work opportunities and income, while for HEs faced by unreliable supply, the challenge represents risk of damage to equipment, prolonged machine downtime, and increased idle capacity.

5.3. Effect of lack of proper worksites on HEs and coping mechanisms employed

5.3.1. Worksites

According to focus groups covered by the study, lack of premises delays the entry of starters into the market while for continuing businesses lack of suitable premises leads to stagnation if the enterprise cannot find alternative premises to accommodate its expanding operations. While it is not the main challenge for many continuing HEs, most of them mentioned it as a secondary constraint. This is because they had found ways of coping with it and for the “time being” it had become a secondary constraint. The most common coping strategy
used by HEs failing to access suitable worksites is to settle for the best alternative to the most preferred site—a second choice of sorts. The option as to second or third choice among alternatives is dictated by the nature of business.

In many cases HEs relocate to alternative premises after trying in vain to cope with changes at the existing premises. At times the relocation is temporary pending availability of suitable premises in the commercial centre. The case of Sam, 27 presented in the box below is an example of this challenge.

Sam, 27, is a welder operating from Myanzi experienced difficulties raising start-up capital and had to sell a part of his land to make it. Later, rent for his the site was increased to levels he could not afford, forcing him to relocate to the village where he operates from now.

After failing to obtain proper worksites, some HEs operate from the open field. The case of Kasim captured in the box below is an example of this challenge.

Kasim, 50, is a Cobbler operating from Myanzi, Mityana District, but finding a suitable worksite has been difficult. As a result, he operates from the open field. Some customers do not collect their shoes on time and yet he does not have proper storage for uncollected items.

5.3.2. Infrastructure
According to HEs covered by the study, the most direct effect of lack of access to or unreliable electricity power supply, on their operations is lost income and lost employment. In both cases affected HEs resort to manual systems as a coping strategy.

The effect of lack of power supply on HE operations was best articulated by the Katikamu focus group. Members of the group indicated that due to unstable power supply in their area, their enterprises could not continue in business because of accumulated losses. They also indicated that they do not have any alternative solution for this particular challenge as they find it very expensive to purchase generators. One of the participants explained that it is not safe to do business in the evening because of darkness and that as a result they always close down before it gets dark. The practice of closing down before dark is the norm in most areas without electricity power supply. With the exception of laundry, tailoring and cooking, most alternative sources of power are too expensive and beyond the means of household enterprises.

As a result of lost production many HEs end up with depressed incomes and at times losses especially enterprises resorting to expensive alternative sources of power. Experiences of some of the affected HEs are summarised below.

iii. HEs facing the constraint of lack of electricity power supply
Members of Lorengedwat Sub-county focus group (Nakapiripirit District) identified lack of electricity power supply as one of the main challenges affecting performance. Their frustration was articulated by Angelina, a soft drinks vendor in the following words:

-Sometimes customers tell me that they want very cold drinks like water and soda to quench their thirst, but because of lack of electricity I end up losing
Like Lorengedwat above, Bala sub-county focus group identified lack of power as one of the main challenges faced by household enterprises. According to them, the challenge forces them to invest in costly alternatives such as generators. Unfortunately, the high cost of acquiring and maintaining such facilities puts them beyond the reach of the majority HEs.

According to Zeu sub-county focus group (Nebbi District) lack of electricity is ranked as one of the major challenges facing enterprises in their sub-county. Most members felt that the absence of electricity was making it difficult for those able and willing to work at night to remain open. They also felt that if they had power, it would also reduce the high incidence of shop break-ins which normally takes place at night.

iv. HEs facing the challenge of unreliable power supply

- Willy, 23, operating secretarial services bureau at Myanzi trading centre, Mityana District, started the business in response to growing demand at the sub county. The main challenge faced by his enterprise is unreliable electricity power supply which normally goes off for a period of 3 to 5 days a week.
- Based at Nakawa, Kampala, Alex, 28, has been operating a tailoring business since 2003. He was motivated to start the business because there appeared to be good demand for it and the start up capital required was small and manageable. His main challenge is unreliable power supply. Unfortunately, whenever he switches over to the manual sewing machine or to a charcoal flat iron, his customers complain that the quality of his services is poor.
- Augustine Sserwadda, 37, has been operating a coffee processing plant in Matete sub-county, Sembabule since 2004. His motivation to start the business was because this line of business didn’t face much competition and it offered a good return. The main challenge facing the business is frequent disruptions in power supply and high electricity bills.

5.4. Possible interventions perceived by HEs as necessary to address the problem

5.4.1. Lack of access to worksite and infrastructure related problems

Participants from Kiboga Township observed that because of lack of proper work space they are forced to operate from shop verandas exposing themselves to a lot of hazards such as the hot sun and erratic rains which have an adverse affect on the quality of their goods. It was also explained that other enterprises were not even welcome to operate from shop verandas because of the nature of their work such carpentry, repair works and sigiri making which involve banging metals etc., which are shunned by many because of the high noise levels they generate.

They proposed that Government should assist them by securing and gazetting a site within the town or in the outskirts where they could relocate. The group was then informed by the District Commercial Officer, that a site exists for industrial development but members argued that while the site was earmarked, the land belongs to individuals and on their own HEs do not have the means to buy them off, but Government can.

There were similar recommendations from other areas including Kawempe in Kampala and Bugambe in Hoima, Bala in Apach, Bobi in Gulu, Koboko, and Lira Municipality.
Chapter 6
Inadequate Business Knowhow

6.1. Introduction
This chapter presents details regarding problems and challenges arising from lack of business knowhow. The constraints which present as difficulties in finding buyers for the HEs' goods and services as well as the high incidence of bad debts, are analysed with a view to establish:
   (e) The nature and extent of the challenges
   (f) The effect of the challenges on household enterprises affected,
   (g) The different methods used by HEs to cope with the challenges, and
   (h) Possible interventions perceived by HEs as necessary to address the challenges.

6.2. Nature of the challenge of inadequate business knowhow

6.2.1. Nature of the challenge of lack of buyers
Lack of buyers is one of the most frequently cited problems among household enterprises covered by the study, with 14% of HEs reporting it as their main challenge (Fig. 4.1, Fig. 6.1).

Fig.6.1: Breakdown of lack of business knowhow

<table>
<thead>
<tr>
<th>Lack of business knowhow (share %)</th>
<th>14</th>
<th>10</th>
<th>24</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of buyers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bad Debts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All</td>
<td></td>
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</table>

The challenge covers the various difficulties experienced by HEs seeking to sell their goods and services arising from: stiff competition; few buyers; and low levels of income among members of the community. In all more than 50% of members of focus groups covered by the study had difficulties in finding buyers for their goods and services (Fig 6.2).

Fig 6.2: HEs with difficulties finding buyers (a) as a whole and (b) by residence

<table>
<thead>
<tr>
<th>HEs with difficulty finding buyers (%)</th>
<th>56</th>
<th>44</th>
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<tbody>
<tr>
<td>Yes</td>
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<tr>
<td>No</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>HEs with difficulty finding buyers by residence (%)</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>55</td>
<td>45</td>
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<tr>
<td>Urban</td>
<td>57</td>
<td>43</td>
</tr>
</tbody>
</table>
The challenge cuts across residence types equally with the ratio of HEs experiencing the constraint among rural and urban HEs at 55% and 57% respectively, and is attributed to the ease with which many people enter the sector without studying the market to ascertain whether there is an opportunity, or whether there is adequate demand for additional sellers. As a result many HEs discover that there aren’t enough buyers to justify entry in the market when they have already entered, and have spent their meagre resources on worksites and other start up costs.

Some of the cases giving details of the nature of this challenge, drawn from focus groups covered by the study from various parts of the country, are summarised below.

**Bugambe Sub-county, Hoima**

Hadija, 35, married, has been making and selling pan cakes for 1 year. The main challenges threatening her business include competition and high transport costs. The key inputs in her enterprise are maize and wheat flour. Due to high competition, there are times when the day ends leaving her with unsold products which she has to throw away because customers don’t like to buy pan cakes made the previous day.

**Myanzi Sub-county, Mityana**

Benedict, 51, has been operating a carpentry business in Myanzi for more than 20 years. His main challenge is stiff competition made worse by customers who take long to pay and sometimes fail to pay, including the sub-county government whose failure to pay compelled him to lay off workers.

Other difficulties experienced by HEs looking for buyers for their goods and services as narrated during the focus group discussions include the following:

- Competition from established businesses;
- The market is on and off depending on the season. This is affecting turnover.
- Customers are few, as a result products either end up getting spoilt or they expire in storage leaving me with no choice but to give them away free of charge;
- The existence of middlemen who exploit the situation by offering low prices is a challenge. –It makes it hard to make any sales, forcing us to reduce prices and sell at a loss;
- Lack of demand due to buyers not being aware of your existence and or the existence of your products in their local area.

**6.2.2. The nature of the challenge of bad debts**

This challenge arises out of normal business dealings with customers, who find themselves short of the cash needed to complete their purchase transactions. According to the focus groups covered by the study, the problem appears to be most common with starters, who lack the experience to deal with demands for credit. Customer requests which normally end in bad debts present in different ways and always appear genuine as the experiences narrated by HEs indicate. In most cases, customers simply negotiate for credit and take the goods demanded promising to pay soon and end up taking too long to pay or never coming back. The majority of cases appear to fall in this category. The enterprise is left without the goods and without cash. This ends up tying up the HE’s meagre capital in debts that don’t get paid. The cases of Juma, a brick maker from Bugambe and Sande a charcoal vendor from Katwe Kabatooro in the boxes below are examples of this challenge.
Juma, 26, based in Bugambe Sub-county, Hoima, has been operating a brick making business since 1998. Owing to lack of school fees, he dropped out of school and started the business to earn some income. His main challenge is bad debts, –mostly by the rich who take bricks and promise to pay but never come back||. 

Sande, 40, a charcoal vendor since 1998

Based in Katwe Kabatoooro Township, Kasese District, Sande, 40 has been operating as a charcoal vendor since 1998. Before starting the business, Sande carried out a market research and discovered that the business was viable. His main challenge is customers who take too long to pay for the charcoal they have taken on credit.

Some of the doubtful debts arise out of situations where customers make orders and pay a deposit but fail to come back to complete the transaction. In this case, the hands of the enterprise are tied since a deposit has been paid on the product. In the end the HE’s capital is tied up, and storage facilities are overstretched, leaving the HE with no capacity to handle any other orders. A case in point is Rehema described in the box below.

Rehema, 36, based in Kibiito Sub-county, Kabarole District, has been operating a tailoring business since (2006). She started the business after attending a tailoring course and wanted to do it as a business. Her main challenges include lack of working capital to buy inputs and customers who make a deposit on orders and fail to come back to pay and collect their clothes thereby tying up her limited capital.

6.3. Effect of inadequate business knowhow on HE operations and coping methods used

6.3.1. Effect of lack of buyers on HEs affected and coping methods employed

The challenge of lack of buyers affects different enterprises differently depending on the nature of their business. In the case of food vendors and enterprises dealing in fresh produce such as fruits and vegetables, lack of buyers results in wastage and direct loss because most HEs affected lack proper storage facilities. This eats away the little capital invested increasing the vulnerability of the enterprise. Some enterprises deal in products that are not perishable but are likely to deteriorate in storage. This includes goods such as drugs with an expiry date and dry produce whose quality deteriorates with extended periods of storage. HEs affected by this challenge resort to selling such goods at a loss to avoid total spoilage which would force them to dispose of the goods at no gain. In the case of enterprises dealing in non-perishable goods, the business is starved of cash due to lack of sales, resulting in failure to meet current liabilities as they fall due. Enterprises dealing in services face the same pattern as those dealing in non-perishable goods. Lack of customers leads to dwindling cash in the business, and eventually failure to pay current liabilities as and when they fall due.

During the study there were many cases reported about goods which were either thrown away or had to be given away free of charge because they were spoilt, had expired in storage or were about to expire. Strategies used by HEs to cope with the problem of lack of buyers vary between sectors, business type and even location. Some of the coping strategies employed by affected enterprises include improving customer care; upgrading technology; expanding variety of shop goods; and carrying out peer marketing. The other coping strategies employed are indicated in the boxes below.
Agnes Drugs shop

Agnes, 25, with a diploma in pharmacy has been operating a pharmaceutical shop since 2007, in Kawempe. The main challenge she faces is lack of serious buyers. Because her customers are few, her drugs tend to stay long in storage, locking up her capital, and at times expiring in storage leading to direct loss. In mitigation, Annet has started stocking drugs with a long shelf life and stocks very few drugs with a short shelf life.

Juma Barber shop

Juma, 27, has been operating a barber shop in Matete Sub-county, Sembabule since 2000. The business is now facing stiff competition and in response he has acquired a steriliser for his salon tools and has also revised his prices so as to minimise loss of clients.

6.3.2. Effect of bad debts on HEs affected and coping methods employed

According to HEs affected by this problem, an accumulation of bad debts leads to a tight cash flow situation making it difficult for the enterprise to meet its current liabilities as they fall due. Most household enterprises participating in the survey understood these dangers, and many have developed a strict credit policy to minimise the impact of doubtful debts on their operations. Some of the experiences and coping strategies used by some HEs are presented in the boxes below:

Lorengedwat focus group (Nakapiripirit District):

Members agreed that customers who do not complete their payments lead to the losses in their businesses which at times lead to the demise of the business. In his contribution to the discussion, Joseph, one of the participants dealing in handicrafts, declared that –before I serve a customer I’ll advise him or her to order with cash because I do not want to incur any more losses due to bad debts.

Bobi focus group (Gulu District):

Members observed that when the debtors accumulated by a household enterprise become too big they reduce productivity. Instead of raising the income to the HE the debtors will have run down the stock in the business. They concluded that they must enforce a strict credit policy in order to protect themselves from collapsing.

6.4. Possible interventions perceived by HEs as necessary to address the challenges

6.4.1. Possible interventions perceived by HEs as necessary to address the problem of lack of buyers

(a) Improve access to market information: During discussion it became apparent that many members of the focus groups covered were not aware of information about the market beyond their immediate neighbourhood.
(b) *Access to appropriate training programs:* During discussion, many focus groups covered by the survey expressed the need for training to equip them with basic skills to enable them improve performance in customer care and customer satisfaction. Nearly 10% of HEs covered indicated that training would help them overcome difficulties experienced in marketing their goods and services.

(c) *Reduction in taxes:* During discussion, it was the view of most members that there are too many taxes and that tax rates are too high, driving the prices of their goods beyond the reach of their clients resulting in a depressed demand for their goods. A discussion about members’ concern regarding too high and too many taxes is covered under a separate heading.

6.4.2. **Possible interventions necessary to address the problem of bad debts**

All members of focus groups were agreed that the problem of bad debts needed their own attention, and they were unanimous in their resolve to enforce a strict credit policy. The positive attitude exhibited by focus groups discussing this problem would appear to suggest that training would be an effective remedy. Accordingly this is an area where appropriate intervention needs to be developed to build the capacity of HEs to ensure that they can make proper assessment of requests for credit and subsequently resulting debtors properly managed.
Chapter 7
Access to Appropriate technology

7.1. Introduction
This chapter presents details regarding the challenge of lack of access to appropriate technology. The challenge is analysed with a view to establish the following:
   (i) The nature and extent of the challenge,
   (ii) The effect of the challenge on household enterprises affected,
   (iii) The different methods used by HEs to cope with the challenge, and
   (iv) Possible interventions perceived by HEs as necessary to address the challenge.

7.2. Nature of the challenge of lack of access to appropriate technology
The constraint of lack of access to technology covers cases of household enterprises that, in response to demand and other market factors would like to upgrade their technology but are unable to do so for one reason or another, including lack of availability of the desired technology, lack of finance, and uncertainty regarding the viability of the investment (high costs involved). As one of the main barriers to technology upgrade is lack of finance, there is always a tendency for entrepreneurs to report lack of access to technology as lack of access to credit, which in spite of being true will tend to mask the magnitude of the challenge of lack of access to technology. In order to avoid this situation, respondents were asked individually in a structured interview, whether they had any difficulties upgrading the technology used in the enterprise. In response to this question, 67% of all household enterprises participating in the study answered in the affirmative (Fig 7.1). There was neither a rural bias nor an urban bias in the location of this challenge as it seems to affect both communities equally with the ratio of HEs affected by the challenge in both the rural and urban areas at 67% and 66% respectively.

Fig 7.1: HEs experiencing difficulties accessing technology

7.3. Effect of the challenge of lack of access to appropriate technology on HEs
According to focus groups covered by the survey, lack of access to appropriate technology is preventing them from improving the productivity of their enterprises. Following are some of the testimonies from affected HEs describing the effects of the problem on their enterprises.
Tom, running a carpentry workshop in Lira Municipality would like to upgrade to power tools for his workshop, which he believes would increase the capacity of his timber mill significantly. At present he uses local tools to do the same work.

Based at Najjema, Mukono district, Sauda, 40, has been operating a tailoring business since 1982. She started the business to enable her support her family as well as orphans left behind by departed relatives. There is growing demand for new fashions in Najjema but she is not able to serve this market because she doesn’t have a designing machine. As a result, “I keep losing customers, yet these days customers are seasonal”.

Based at Nakawa, Lyazi, 31, has been operating a metal working business since 1992. He makes tin boxes for students attending boarding schools. Demand for these products is seasonal and peaks at the beginning of the school term when children are going back to school. There is stiff competition but the tools he uses are not modern and works extra hard to realise turnover. He would perform much better if he could upgrade the equipment he uses.

7.4. Possible interventions perceived by HEs as necessary to overcome the challenge

According to HEs covered, the main intervention necessary to enable them overcome the challenge of lack of access to appropriate technology is improving access to finance; skills training; and equipment finance (Fig 7.2).

Apart from support in the form of access to finance, the type of support perceived as necessary by HEs covered seems to vary with residence. While there are many rural based HEs seeking support in the form of skills training and equipment finance at 14% and 15% respectively, the ratio of urban based HEs seeking skills training is nearly double the ratio seeking equipment finance at 23% and 13% respectively (Fig 7.2). The difference in preference is probably because urban based HEs are more exposed and appreciate better than their rural colleagues the role of training in technology improvement.

A significant majority (66%) of HE owners surveyed indicated that the intervention necessary to address the constraint of access to technology is credit, including both ‘affordable credit’ and ‘equipment finance’, followed by skills training at 18%. However while it did not feature among the bigger preferences, the other barrier to technology upgrade often mentioned was electricity related factors. These factors include actual coverage especially in rural areas, and where coverage has been achieved the barrier tended to be reliability and the high cost of connection and utilisation.

An example of this challenge comes from Kiboga Township focus group which indicated that while they would like to upgrade the technology used in their enterprises, they are reluctant to do so before the problem of unreliable power supply in their town is addressed. In their view, the most effective way of addressing this challenge is for Government to consider installing a heavy duty standby generator in Kiboga just as it has been doing for some other towns in the past.
Fig 7.2: Support perceived as necessary to overcome lack of access to appropriate technology

<table>
<thead>
<tr>
<th>Support needed by HEs (%)</th>
<th>Support needed by residence (%)</th>
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<tbody>
<tr>
<td>Affordable credit</td>
<td>Rural</td>
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<tr>
<td>52</td>
<td>53</td>
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<tr>
<td>Skill training</td>
<td>14</td>
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<td>Equipment finance</td>
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<td>Other</td>
<td>16</td>
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Appendices
Annex 1: FGD guide

Uganda Country Study
Raising Productivity and Reducing the Risk of Household Enterprises

FOCUS GROUP DISCUSSION GUIDE

Introductions
- Self introductions of participants indicating activity in which involved, year started HE, and main motivation for starting HE: probe to establish actual motive beyond generalities, e.g. if s/he says to improve family life ask in what way
- Ask the group to identify other non-farm HEs in the area not represented in the sample

Main constraints experienced in starting, and operating income generating activities
- Constraints, Risks/challenges experienced in starting enterprise (e.g. in registration, licensing, raising start up capital, level of knowledge & skills) and how overcome
- Constraints, Risks/challenges experienced in operating enterprise (e.g. in raising working capital, business expansion, marketing, upgrading technology)
- Effect of the constraints/risks on enterprise and strategies employed in mitigation
- Possible interventions necessary to address constraints, risks/challenges

Policies, laws and regulations affecting HEs
- Main Govt policies supporting HEs and benefits derived from them
- Policies, laws and regulations hurting HEs, in what ways do they hurt
- Procedures involved in obtaining a trade license and other permits
- Possible interventions necessary to eliminate/minimise the problem.

Programs and Institutions operating in the area and their effectiveness
- HE associations/groups in the area (strengths, weaknesses, how can they be strengthened)
- Other Institutions (Govt/NGO/Other) supporting HEs in the locality
- Govt/NGO/Other Programs supporting HEs in the locality and benefits derived from them
- Possible interventions necessary to improve effectiveness of support.
**Structured Interviews - Interview Schedule**

**Research Associate:**  
______

**Section 1: Background**
(a) **Name (of respondent):**

(b) **Gender:** 1 Male; 2 Female

(c) **No of Children**

(d) **Age (completed years)**

(e) **Marital status:** 1 Married; 2 Single; 3 Widowed; 4 Other

(f) **Address:**
- Sub-County/Division
- Town/Municipality
- District

(g) **Educational standard attained (e.g. none, p3, p7, s2, s4, Dip etc):**

**Section 2A: Profile of Business**
(a) **Main income generating activity/enterprise**

(b) **Other income generating activities undertaken**

(c) **Do you maintain records for your enterprise? Y=1/N=2**

(d) **Year enterprise started**

(e) **No of employees (excluding owner)**

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<tr>
<td>0</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>Other-specify:</td>
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(f) **Of whom members of owners’ family**

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<tr>
<th>1</th>
<th>2</th>
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<td>Other-specify:</td>
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(g) **Of whom paid workers**

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<td>4</td>
<td>Other-specify:</td>
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</tbody>
</table>
Section 2B: Registration & Licensing
(a) Is business registered? Y=1/N=2
(b) If yes, where was it registered?
(c) If no, why is not registered?
(d) Does business have a Trading license? Y=1/N=2
(e) If N, why not?

Section 2C: Performance and Risks in the last six months
(a) Average monthly turnover (in Uganda shillings)
(b) Average monthly Net income (in Uganda shillings)
(c) Proportion of Net income to total household income %
(d) Main risks faced by enterprise
(e) Mitigation strategies employed

(f) Is your enterprise insured? Y=1/N=2
(g) If N, why not?

(h) Would you insure your enterprise if the service was available and affordable? Y=1/N=2

(i) Which insurance would you take up?

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<th>6</th>
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</table>
| None | Accident | Burglar | Fire | All risks | Other specify:

(j) If Y, what insurance cover do you hold?

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<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
</table>
| Accident | Burglar | Fire | All risks | Other

Section 3: Constraints faced by enterprise
(a) What are the main constraints faced by your enterprise?
(b) How have you been coping?

(c) What assistance do you need to address the constraints more effectively?

(d) Do you find it difficult to raise credit for your enterprise? Y=1/N=2

(e) If N, from where do you borrow loans for your enterprise?

- How much have you borrowed in the last six months? 

(f) If Y, what difficulties do you face?

- Which financial institution have you approached recently?

- Are you a member of a SACCO? Y=1/N=2

- If Y, why was the SACCO unable to meet your need?

(g) Do you find it difficult to access markets for your products/services? Y=1/N=2

(h) If Y, what difficulties do you face?

(i) What assistance do you need to overcome the difficulties?

(j) Do you find it difficult to upgrade the technology in your enterprise? Y=1/N=2

(k) If N, how do you plan to upgrade?

(l) If Y, what difficulties do you face?

(m) What assistance do you need to overcome them?

Section 4: Way forward

(a) In terms of rank, what is the single most important challenge faced by your enterprise?
(b) What assistance would you need to address this challenge on a sustainable basis?

(c) In your estimation, by how much would your enterprise grow if this assistance came?

i. Increase in monthly turnover

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<tbody>
<tr>
<td></td>
<td>&lt;25%</td>
<td>25%</td>
<td>50%</td>
<td>75%</td>
<td>Other specify:</td>
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ii. Increase in no of persons employed

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<td></td>
<td>&lt;25%</td>
<td>25%</td>
<td>50%</td>
<td>75%</td>
<td>Other specify:</td>
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iii. How long would it take to realise this level of growth?

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<tbody>
<tr>
<td></td>
<td>&lt;25%</td>
<td>25%</td>
<td>50%</td>
<td>75%</td>
<td>Other specify:</td>
</tr>
</tbody>
</table>

We thank you so much for giving us your time and invaluable advice
Addendum

Section 1: Background

(h) Have you ever attained any Post school training? Y=1/N=2

(i) If yes, to what extent was the training relevant to your HE?

---------------------------------------------------------------------------------------------

Section 2B: Registration & Licensing

(aa) If business registered, how much did you pay to have it registered?

(da) If the business has a Trading License, how much did you pay for it?

(db) Does the business have other license/permits relating to the HE? Y=1/N=2

(dc) If Yes, how much have you paid for licenses in the last 12 months?
**Annex 3: List of main activities undertaken by HEs**

<table>
<thead>
<tr>
<th>Main economic activities undertaken by household enterprises</th>
<th>Garbage collection</th>
<th>Pop-corn making</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alcohol making</td>
<td>Grain milling</td>
<td>Pork selling</td>
</tr>
<tr>
<td>Animal slaughter</td>
<td>Grass selling</td>
<td>Primary school owner</td>
</tr>
<tr>
<td>Babar services</td>
<td>Grocery shop</td>
<td>Printing /printer</td>
</tr>
<tr>
<td>Bakery</td>
<td>Ground nut roasting;</td>
<td>Produce buying</td>
</tr>
<tr>
<td>Banana leaves</td>
<td>Ground nuts vending</td>
<td>Real estate services</td>
</tr>
<tr>
<td>Bar business</td>
<td>Hair dressing</td>
<td>Repair of bicycles Repair of</td>
</tr>
<tr>
<td>Battery charging</td>
<td>Hardware shop</td>
<td>motor cycles</td>
</tr>
<tr>
<td>Bee keeping</td>
<td>Hawking</td>
<td>motor vehicles;</td>
</tr>
<tr>
<td>Bicycle repair</td>
<td></td>
<td>Repair of</td>
</tr>
<tr>
<td>Black smith</td>
<td>Health clinic/medical services;</td>
<td>radio and TV sets</td>
</tr>
<tr>
<td>Boda-boda operator</td>
<td>Herbal medicine making</td>
<td>Repair of watches</td>
</tr>
<tr>
<td>Brewing local beer</td>
<td>Hides and skins Juice</td>
<td>Repairing car tyres</td>
</tr>
<tr>
<td>Brick making</td>
<td>making Kindergarten</td>
<td>Restaurant</td>
</tr>
<tr>
<td>Construction</td>
<td>operator Knitting;</td>
<td>Retail trade</td>
</tr>
<tr>
<td>Butchery business</td>
<td>Laundry /Dobie</td>
<td>Sale of Beverages</td>
</tr>
<tr>
<td>Car washing</td>
<td>Loading &amp; offloading trucks</td>
<td>Sale of fire wood</td>
</tr>
<tr>
<td>Carpentry</td>
<td>Local musicians /entertainment</td>
<td>Sale of fried ground nuts</td>
</tr>
<tr>
<td>Cassava roasting;</td>
<td>Making works of Art</td>
<td>Sale of maize flour</td>
</tr>
<tr>
<td>Cattle selling/trading</td>
<td>Mandazi selling</td>
<td>Saloon business</td>
</tr>
<tr>
<td>Chapatti making</td>
<td></td>
<td>Sand selling</td>
</tr>
<tr>
<td>Charcoal burning</td>
<td>Market vending</td>
<td>Secretarial services</td>
</tr>
<tr>
<td>Charcoal selling</td>
<td>Matoke vending</td>
<td>Security services provision;</td>
</tr>
<tr>
<td>Chicken selling</td>
<td>Meat roasting</td>
<td>Shoe repair</td>
</tr>
<tr>
<td>Cloth shop</td>
<td>Metal fabrication</td>
<td>Shoe shining</td>
</tr>
<tr>
<td>Cobbler</td>
<td>Milk vending</td>
<td>Stationary shop</td>
</tr>
<tr>
<td>Coffee beans vending</td>
<td>Mixing animal feeds</td>
<td>Storage services</td>
</tr>
<tr>
<td>Coffee buying</td>
<td>Newspaper vending</td>
<td>Street vendor</td>
</tr>
<tr>
<td>Crafts making</td>
<td>Night club/entertainment;</td>
<td>Street vendor</td>
</tr>
<tr>
<td>Crafts shop</td>
<td>Old shoes</td>
<td>Tailoring</td>
</tr>
<tr>
<td>Cultural items shop</td>
<td>Old spare parts</td>
<td>Taxi Hire car</td>
</tr>
<tr>
<td>Day old chicks</td>
<td>Papyrus cutting</td>
<td>Taxi touting</td>
</tr>
<tr>
<td>Decorators; Drug shops Electrical services Farm</td>
<td>Paraffin selling Pay</td>
<td>Timber selling</td>
</tr>
<tr>
<td>supply shop Fire wood</td>
<td>phone</td>
<td>Traditional healers</td>
</tr>
<tr>
<td>Fish mongering</td>
<td>Pharmacy/Drug shop</td>
<td>Vegetables</td>
</tr>
<tr>
<td>Food vending</td>
<td>Phone card vending</td>
<td>Vet clinic</td>
</tr>
<tr>
<td>Fresh foods</td>
<td>Phone charging</td>
<td>Vet drugs shop</td>
</tr>
<tr>
<td>Fresh fruits</td>
<td>Phones and accessories</td>
<td>Video showing</td>
</tr>
<tr>
<td>Fuel dealers</td>
<td>Photo studio</td>
<td>Video Tapes/CD shop</td>
</tr>
<tr>
<td></td>
<td>Photography;</td>
<td>Water vending</td>
</tr>
<tr>
<td></td>
<td>Plumbing services</td>
<td>Welding</td>
</tr>
<tr>
<td></td>
<td>Pool table game</td>
<td>Wholesale trade</td>
</tr>
</tbody>
</table>
Annex 4: The main reasons for starting HEs

1. After failing to get school fees, decided to learn the business
2. After failing to get school fees, boda-boda was the only option
3. After failing to pursue education further, went for tailoring course.
4. After he was retrenched, fish mongering was the best option.
5. After his retirement, started the shop to occupy him and also generate less stressful income.
6. After retrenchment, decided to start riding a boda-boda
7. After retrenchment, he needed an income generating activity
8. After school he had no job and started the enterprise as a source of income
9. After school she wanted to support herself financially
10. After school, he worked with a welder as an apprentice and learnt the trade
11. After the death of his father, he started working in a hotel and learnt the trade from there;
12. Around that place there were no shops, so he decided to start one;
13. As a young man, I noticed that this service was not available in this place and I decided to start it to earn some income.
14. Become independent
15. Community had no reliable water source, so I took advantage and started the service;
16. Could no longer cope with gardening and knew how to weave mats and baskets.
17. Could raise the necessary capital and there was abundant market
18. Death of her husband
19. Dropped out of school due to lack of fees so instead of loitering around I decided to start the boda-boda business
20. Dropped out of school so started to learn welding skills and started welding as an income generating activity.
21. Dropped out of school so wanted to support her mother financially.
22. Education for children
23. Farming was taxing with low profits; he resorted to driving.
24. Former shop owner sold same items
25. From childhood his father was a welder so he grew up in that and decided to take it as a business
26. Fruits were cheap and taxes were few and very low by then.
27. Gained interest from the brother who had a saloon
28. Growing demand at the sub-county and in schools.
29. Had a passion for the business
30. Had dropped out of school and wanted a business which required small start-up capital
31. Had dropped out of school because of fees, so decided to start a shop to earn a living
32. Had got training in that area and decided to have it as a business.
33. Had no job and yet realised that around that place there was market for tobacco
34. Had no money to support family so he started the business
35. Had no school fees and looked for some business which required little money
36. Had no source of income. Decided to start showing live premiership matches since no one was doing it.
37. He did not have any other qualifications apart from carpentry skills, thus decided to take it up as an income generating activity to support the family
38. He did not have much money so he resorted to driving a boda-boda to earn a living.
39. He got encouragement from the brother
40. He had dropped out of school so he decided to learn skills that would support him financially
41. He had easy access to the forest and market
42. He had interest in music, entertainment and public presenting.
43. He had learnt about milk selling from home.
44. He had no fees to continue in school, so he decided to start the business
45. He had no more school fees and had learnt the business from the Landlord who runs a similar business
46. He had not gone far in education so had to start a business that could give him some income and people were building so he ended up in that business.
47. He had seen the market was available and therefore an opportunity of making money because he had no source of income.
48. He had the knowledge and skills and wanted to put them in use as a source of income.
49. He is a professional tailor
50. He is a talented craftsman. After divorcing his wife, he opted for a non-farm business.
51. He learnt the trade while working with some butcher man.
52. He learnt through apprentice and when he saw relatives in a similar business doing well, he developed the interest;
53. He needed money to support the family in paying school fees
54. He thought of starting a business to survive
55. He took over a family business
56. He used to help his father and he learnt the trade
57. He wanted to earn a living.
58. He wanted to get a source of income for himself and family and be self sustaining
59. He wanted to start this income generating project to support his brothers and parents
60. He wanted to support the family financially
61. He wanted to survive and support himself financially
62. He wanted to take advantage of the newly created Sembabule District
63. He was an apprentice of an elder brother; took over business when brother died
64. He was doing nothing and therefore decided to start this business to support himself financially.
65. He was interested and preferred the job to others
66. He was not well educated so he had to start a business to support himself financially
67. Her sister owned the school and she took over when she died.
68. His motive was to get an independent income.
69. I had failed to get school fees so I decided to be independent in that business.
70. I looked at the business and it was doing well so I decided to join it.
71. I loved to do business after witnessing other people progressing
72. I noticed that there was demand for the service;
73. I was just motivated by its nature.
74. I was poor at that time and I decided to start the business
75. Is a professional and there was a supply gap in the town
76. It is a family business, inherited from my father.
77. It is her profession
78. It was a less competitive business and offered a good turnover
79. It was a more reliable business because the goods are not perishable.
80. It was his profession and his passion.
81. It was in response to market demand
82. It was the only skill she could cheaply learn when she had no more school fees.
83. It was the responsibility had at that time that forced me to look for a source of income to sustain the family
84. Lost his land to forest investors and shifted to Myanzi for meat roasting.
85. Made a research and found out that it was marketable
86. Market demand for a hardware shop and gas welding
87. Market demand for the game in Myanzi
88. My father failed to pay school fees for further studies so decided to start business
89. Need for a daily income for the family led to the start of the business
90. Needed a job which could bring in daily income.
91. No one was providing the service in Kisoro so he decided to venture into it
92. Paying school fees for orphans
93. Picked interest and skill when he worked under apprentice from the first job
94. Raise income for education of children
95. Raising income for the family
96. She already knew how to cook and wanted to get daily income.
97. She could not continue with school so she wanted to support herself
98. She had children and had no help so she decided to start the hotel/ food vending business
99. She had got training in that area so she decided to start on it as a business.
100. She had limited land for cultivation so she decided to go into business
101. She had worked with her sister who had a restaurant, she picked interest to start her own
102. She is a trained nurse, wanted a side income since salary was not enough.
103. She needed a source of income to enable her look after her family and orphans of her dead relatives.
104. She trained as a hair dresser.
105. She wanted money to develop herself
106. She wanted some money to construct her own house.
107. She wanted to provide financial support for her family
108. She wanted to engage in some trade which required little or no start capital. She applied to the Division and was granted permission to vend water.
109. She wanted to get some money to look after her family
110. She wanted to support herself financially
111. She wanted to support herself since she has never been married and has no children
112. She was out of school, got a baby who became sick and had to get money for treatment so she decided to start the business
113. She was unemployed and decided to start this business to earn some money for a leaving.
114. Started it as a source of income for the family.
115. Started it as an income generating activity to support his family and other developments
116. Take care of orphans
117. That was the job he could do since he had no more school fees.
118. That was the only possible source of income he could think of at that time.
119. The business required a small startup capital; and, there was ready market for the foodstuffs.
120. The business required little capital to start
121. There was demand for news papers in Myanzi, but no supply, so I decided to start.
122. There was demand for tailors and business needed small startup capital.
123. There was market for fruits worldwide so I decided to start is as a business;
124. There were no saloons in the area by the time she started so she thought that was a good idea;
125. To accumulate personal savings
126. To supplement salary
127. Trained as a pharmacist and wanted to practice the trade
128. Wanted a business which required a small start-up capital
129. Wanted a source of income with an affordable startup capital
130. Wanted to become self employed
131. Wanted to create a side income to supplement salary.
132. Wanted to get a business to raise money for his school fees to restart schooling
133. Wanted to get money for the family
134. Wanted to go into self employment because as agricultural students, were warned of job scarcity.
135. Wanted to make finished products to avoid the bad public image towards carpenters – that they con customers and do not finish assignments on time.
136. Wanted to raise income for himself and the family
137. Wanted to start an income generating activity to support her family financially
138. Wanted to support the husband in school fees and other needs
139. When he stopped coffee buying and came to Katikamu, he wanted to engage in bar businesses because his father had one.
140. Worked with his late father as an apprentice and picked interest.
Annex 5: List of institutions supporting HEs identified

1. ADRA (Microcredit Dept)
2. Barclays,
3. BRAC
4. Centenary Bank
5. Equity Bank
6. Finance Trust Bank
7. FINCA
8. Global Trust Bank
9. GOAL
10. HABITAT
11. Hofokam
12. Ikongo (loans based in Bwera);
13. IICO (International Islamic Charity Organization)
14. Kajara Peoples bank,
15. Kibatsi Polytechnic
16. L. Katwe Technical Institute (offers training in building, joinery, carpentry, M/V technology)
17. LWF (Lutheran World Federation)
18. MAZZI Uganda
19. Ntungamo Polytechnic
20. Pearl MFI
21. Post Bank, 
22. PRIDE Uganda
23. SAKU,
24. Stanbic Bank
25. TEFFORD (Teso Foundation For Rural Development)
26. Trust MFI
27. UCOBAC
28. UGAFODE;
29. Uganda change agent
30. Uganda Wild Life Training Institute (offers training in wild life management).
31. UWESO
32. VEDCO
33. World Vision
ANNEX 5

Matrix of programs supporting HE operations
(a) Summary of donor funded programs/projects with influence on the operations of non-farm household enterprises

<table>
<thead>
<tr>
<th>Program/ Project title</th>
<th>Number of beneficiaries</th>
<th>Expected benefits for beneficiaries</th>
<th>Program/ Project Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Instructors’ Training for Vocational Education &amp; Training Project (Nakawa VTI)</strong></td>
<td><strong>Instructors</strong>: 1\textsuperscript{st} cvti: 29; 2\textsuperscript{nd} cvti: 39; 1\textsuperscript{st} Dvti: 29 <strong>Managers</strong>: 1\textsuperscript{st} DTIM: 25</td>
<td><strong>Instructors</strong>: Improved technical and pedagogical skills; Improved training delivery skills  <strong>Managers</strong>: Improved managerial skills</td>
<td>FY 07/08  FY 08/09  FY 09/10 (ongoing)  Shs 248m  Shs 410m  Shs 364m  Shs 170m  Shs 368m  n/a</td>
</tr>
<tr>
<td><strong>2. Strengthening Women Entrepreneurs in Uganda (Enterprise Uganda)</strong></td>
<td>2,879 women entrepreneurs</td>
<td>Improved business management capabilities</td>
<td>2008 – 2010 (ongoing)  USD 320k pa  USD 320k pa</td>
</tr>
<tr>
<td><strong>3. Graduate Empowerment Program (Enterprise Uganda)</strong></td>
<td>2,866 university graduates</td>
<td>Acquisition of entrepreneurship and business skills to enable them start and manage their own businesses</td>
<td>2007-2009 (ongoing)  Shs 400m pa  Shs 400m pa</td>
</tr>
<tr>
<td><strong>4. Enterprise Skills &amp; Linkages Program (PSFU)</strong></td>
<td>MSMEs and formal training providers</td>
<td>(a) Acquire vocational, tech skills &amp; knowledge  (b) Improved productivity  (c) Improved managerial skills</td>
<td>2005 – 2010 (ongoing)  USD 400k  USD 513k (up to 30 Oct 09)</td>
</tr>
<tr>
<td><strong>5. UNIDO Microsoft /ICT services for MSMEs Project (USSIA)</strong></td>
<td>120 USSIA affiliated SME associations from 8 towns</td>
<td>USSIA affiliated members access:  (a) Market information  (b) Opportunities to market own products  (c) Opportunities for linkage with other SMEs, larger companies</td>
<td>Started 2007 (ongoing)  USD 220k  n/a</td>
</tr>
<tr>
<td><strong>6. NUSAFF Youth Opportunities Program</strong></td>
<td>9,300 individual youths (469 youth groups)</td>
<td>Skills training, plus tool kits worth $10,000 per youth group</td>
<td>2003 - 2008  US$ 6.0m  Shs 6,033m</td>
</tr>
<tr>
<td><strong>7. UYDEL Vocational Skills Training Program</strong></td>
<td>568 youths</td>
<td>Street children trained in hairdressing, tailoring, catering, motor cycle mechanics, carpentry, electronics, and welding and resettled back with their families</td>
<td>2008  UShs4,638k  UShs4,638k</td>
</tr>
<tr>
<td><strong>8. BRAC Adolescent Entrepreneurship Development Program</strong></td>
<td>24,683 Teenagers (As at Dec 31\textsuperscript{st}, 2009)</td>
<td>Adolescent girls receive (a) life skills training including hairdressing and tailoring (b) startup capital to enable them start own business enterprises after the training.</td>
<td>2008-2009 (ongoing)  USD 1,702k  USD 421k</td>
</tr>
<tr>
<td><strong>9. Local Skills Development (LSD) Pilot Project (PEVOT, Gtz)</strong></td>
<td>Enrolled: 643  Active learners: 562</td>
<td>Acquisition of locally available skills e.g. tailoring. Project simply added value e.g. marketing, pricing, record keeping etc.</td>
<td>2004 - 2007  No fixed budget.  €250k</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>No.</th>
<th>Project Title</th>
<th>Targets/Outcomes</th>
<th>Start Year</th>
<th>End Year</th>
<th>Budget 1</th>
<th>Budget 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>Local Skills Development for Youth (LSDY) Pilot Project (Swisscontact Uganda)</td>
<td>566 Youths completed this 1 year program and have all been placed in employment.</td>
<td>2009</td>
<td>2010</td>
<td>S Fr 2.0m</td>
<td>S Fr 1.0m</td>
</tr>
<tr>
<td></td>
<td>NB: LSDY is based on the PEVOT LSD Model.</td>
<td>-Start own business; Job placement;</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>-Provision of worksite for groups who remain together after training; Worker’s PAS – a kind</td>
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<td></td>
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<td>of certification of the skills possessed; Life transformation.</td>
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<tr>
<td>11</td>
<td>RYDA Vocational Skills Training Program (Fully licensed and registered with the MoES and UGAPRIVI)</td>
<td>200 young people enrolled every year.</td>
<td>1992</td>
<td>ongoing</td>
<td>U Shs 650m</td>
<td>U Shs 400m</td>
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<tr>
<td></td>
<td></td>
<td>Young people receive (a) vocational skills including Tailoring, Carpentry, Brick laying,</td>
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<tr>
<td></td>
<td></td>
<td>electrical wiring, welding &amp; motor vehicle mechanics (b) Entrepreneurial skills, (c) Career</td>
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<td></td>
<td>guidance (d) UNEB Certification (e) Placement in employment after successfully completion of training.</td>
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</tr>
<tr>
<td>12</td>
<td>DANIDA Private Sector Dev Program – ASPS II, Radio Listeners’ Project.</td>
<td>280 000 Radio listeners (households)</td>
<td>2008-2009</td>
<td></td>
<td>U Shs300m</td>
<td>U Shs 300m</td>
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<td></td>
<td></td>
<td>Radio listeners are accessing market price information on 44 commodities from 18 districts and</td>
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<td></td>
<td></td>
<td>markets. The information is also accessed via 34 district and market notice boards, SMS and web</td>
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<td></td>
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<td>to phone services.</td>
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<tr>
<td>13</td>
<td>Warehouse Receipt System (WRS) Project</td>
<td>3 Warehouses (Jinja, Kasese &amp; Masindi), with 130 depositors (70% farmer groups,</td>
<td>2008-2010</td>
<td>2008/09</td>
<td>U Shs 1.0 bn</td>
<td>U Shs 750m</td>
</tr>
<tr>
<td></td>
<td></td>
<td>30% traders). 2,000 farmers from the hinterland of the warehouses, trained.</td>
<td></td>
<td>2009/10</td>
<td>UShs 1.02 bn</td>
<td></td>
</tr>
<tr>
<td></td>
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<td>-2,000 metric tons deposited thru the system;</td>
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<tr>
<td></td>
<td></td>
<td>-Commodity trading floor operational;</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>-Proper storage facilities that are secure and professionally managed; WRS exposing farmers and</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>traders to stable buyers like WFP;</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>-traders’ &amp; farmers’ access to finance through banks eased;</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>-farmers able to sell when the price is high rather than right after harvest.</td>
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<tr>
<td>14</td>
<td>Developing Infrastructure and Financial Services (UIA,PSFU) – Namanve Ind/Business Park</td>
<td>230 firms</td>
<td>2006-2009</td>
<td></td>
<td>USD 27m</td>
<td>USD 8.655m</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-Improved business environment;</td>
<td></td>
<td></td>
<td>(allocated)</td>
<td>(Aug ‘09)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-Fully serviced/developed sites;</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>15</td>
<td>Business Uganda Development Scheme – Enterprise Development Support (BUDS - EDS) (PSFU)</td>
<td>2,481MSMEs</td>
<td>2003-2006</td>
<td></td>
<td>UShs2,000m</td>
<td>UGX 1,948.6m</td>
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<td></td>
<td></td>
<td>Knowledge/skills acquisition through BDS, increased sales, increased productivity, boost exports,</td>
<td></td>
<td></td>
<td>Financing pa:</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>efficiency, quality and employment</td>
<td></td>
<td></td>
<td>U Shs 650m</td>
<td></td>
</tr>
<tr>
<td>No.</td>
<td>Programme Name</td>
<td>Sector/Target</td>
<td>Activities</td>
<td>Date</td>
<td>Amount USD</td>
<td>Interest Rate</td>
</tr>
<tr>
<td>-----</td>
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</tr>
</tbody>
</table>
| 16  | Financial Management for MSMEs (PSFU)            | All commercial banks & MDIs | -Support for new product development;  
-Increased access to finance for MSMEs;  
-Reduced costs of financing MSMEs. | 2004-2012 | USD 3.4m   | USD 3.3m     |
| 17  | Business Plan Competition (BPC) (PSFU)           | 1,189 MSMEs   | (a) Start up grants to 10 winners $275,000;  
(b) Capacity building: - Use of business plan as a business mgmt tool;  
- Financial mgmt skills, HR mgmt, marketing mgmt, negotiation & presentation skills, and use of the internet.  
(c) Networking with fellow entrepreneurs. | 2005-2010 | USD 1,664k.  
Financing pa:  
USD 554.7k.  
USD 897.7k (2008) |               |
| 18  | Technology Acquisition Fund (PSFU)               | 9 MSMEs       | Acquisition of technology for immediate introduction in the operations of participating enterprises to increase quality & quantity of exports | 2005-2010 | USD 487k.  
Financing pa:  
On demand  
USD 122k (2008/9)  
USD 365k (2007/8) |               |
| 19  | Business Branding Initiatives (PSFU)             | 10 MSMEs      | Firms are supported to create branded export products and therefore expect to gain an increase in the value of their profit margins | 2008-2010 | USD 1,332k.  
Financing pa:  
On demand  
USD 453k (2008/09) |               |
| 20  | Better Business Behaviour Award Scheme (PSFU).  
*Scheme taken over by banks.* | 40 Beneficiaries including banks & 6 industry associations | Improved MSMEs loans repayment  
Reduced costs of borrowing for good MSME clients | 2005 | USD 1.5m  
*Funds re-allocated to BUDS* |               |
| 21  | BUDS-ERT (PSFU)                                  | -30 firms: Solar PV development  
-250 solar technicians trained | -Business Development Services (BDS) provided to private sector organizations on a cost share basis up to US$50,000  
-Capacity building & Solar PV performance support provided on a grant basis. | 2002-2009 | USD 5.5m | USD 5.13m     |
| 22  | Business Service Market Development Project (DFID) | MSMEs in general | 1) Business linkages and opportunities  
2) Access to markets  
3) Access to commercial Business Services | 2003 - 2005 | $1,300k | $1,100k     |
| 23  | Commercial Justice Reform Programme (MoJCA)      | MSMEs in general | -Providing enabling environment for business  
-Promoting private sector led growth thru law reforms & strengthening commercial registries | Fin year 2005/06 | UShs 3,200m | UShs 3,300m |
| 24  | Development Credit Authority (DCA) Loan Guarantee Program (USAID) | Facility open to financial institutions | Financial institutions receive a guarantee for credit extended to MSMEs under which any loss is covered up to 50% | 2000 - ongoing | Facility limit $10m, loan limit $250k.  
Utilisation by some banks at the ceiling. |               |
<table>
<thead>
<tr>
<th>No.</th>
<th>Program/ Project title</th>
<th>Number of beneficiaries</th>
<th>Implementing agency/ Contact person</th>
</tr>
</thead>
<tbody>
<tr>
<td>25</td>
<td>Energy Advisory Project (EAP) (Gtz)</td>
<td>Energy consumers especially the poor rural population in 3 districts of Uganda</td>
<td>1999 - 2008</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Access to modern sustainable energy services for business and the general population, with particular emphasis on the poorer sections of society has improved.</td>
<td>n/a</td>
</tr>
<tr>
<td>26</td>
<td>Uganda Business Information Network (UBIN) UNITO, MTTI</td>
<td>8 DBICs (District Business Information Centres), 110 info inquiries processed, 580 beneficiaries trained in ICT skills</td>
<td>2006 - 2008</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(a) MSMEs in areas outside Kampala access generated information and ICT support services (b) Business information services developed to provide sector specific information solutions covering food processing, leather, textile, coffee and fish</td>
<td>€618k</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Women MSEs equipped with technical and managerial skills</td>
<td>$505k</td>
</tr>
<tr>
<td>28</td>
<td>Uganda Integrated Programme (UIP) – Master Craftsman Prog- Rural Women MSEs (2005-2007)</td>
<td>587 MSEs 54 District Execs 277 MCP Advisors</td>
<td>Nov ‘05 – Oct _06</td>
</tr>
<tr>
<td></td>
<td></td>
<td>MSEs attended awareness workshops District Executives attended MCP orientation MCP Advisors attended TOT seminars</td>
<td>$870k</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Participants attain a better grasp of trade issues than they did before UPTOP.</td>
<td>€4,500k</td>
</tr>
<tr>
<td>30</td>
<td>Improve the Legal &amp; Regulatory Environment for Business through Regulatory Best Practices (RBP)</td>
<td>10 Urban &amp; Local Governments</td>
<td>2008 _09</td>
</tr>
<tr>
<td></td>
<td></td>
<td>.Reduce time spent by business people on acquiring a trading license; .Separation of trade license acquisition from other activities e.g. inspection; .Dependable business registers introduced thru computerization</td>
<td>Shs 200m</td>
</tr>
</tbody>
</table>

Key: N/a – Not available

(b) Programs supporting HE operations – implementing agencies

<table>
<thead>
<tr>
<th>Program/ Project title</th>
<th>Number of beneficiaries</th>
<th>Implementing agency/ Contact person</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Instructors’ Training for Vocational Education &amp; Training Project (Nakawa VTI)</td>
<td><strong>Instructors:</strong> 1st cvti: 29; 2nd cvti: 39; 1st Dvti: 29.  <strong>Managers:</strong> 1st DTIM: 25</td>
<td>Nakawa Vocational Training Institute (Deputy Director)</td>
</tr>
<tr>
<td></td>
<td>Program Description</td>
<td>Participants/Outcomes</td>
</tr>
<tr>
<td>---</td>
<td>-------------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>2</td>
<td>Strengthening Women Entrepreneurs in Uganda</td>
<td>2,879 women entrepreneurs</td>
</tr>
<tr>
<td>3</td>
<td>Graduate Empowerment Program</td>
<td>2,866 university graduates</td>
</tr>
<tr>
<td>4</td>
<td>Enterprise Skills &amp; Linkages Program (PSFU)</td>
<td>MSMEs and formal training providers</td>
</tr>
<tr>
<td>5</td>
<td>UNIDO Microsoft /ICT services for MSMEs Project (USSIA)</td>
<td>120 USSIA affiliated SME associations from 8 towns</td>
</tr>
<tr>
<td>6</td>
<td>NUSAF Youth Opportunities Program</td>
<td>9,300 individual youths (469 youth groups)</td>
</tr>
<tr>
<td>7</td>
<td>UYDEL Vocational Skills Training Program</td>
<td>568 youths</td>
</tr>
<tr>
<td>8</td>
<td>BRAC Adolescent Entrepreneurship Development Program</td>
<td>24,683 Teenagers (As at Dec 31st, 2009)</td>
</tr>
<tr>
<td>9</td>
<td>Local Skills Development (LSD) Pilot Project (PEVOT, Gtz)</td>
<td>Enrolled: 643</td>
</tr>
<tr>
<td>10</td>
<td>Local Skills Development for Youth (LSDY) Pilot Project (Swisscontact Uganda)</td>
<td>566 Youths completed this 1 year program and have all been placed in employment</td>
</tr>
<tr>
<td>11</td>
<td>RYDA Vocational Skills Training Program (Fully licensed and registered with the MoES and UGAPRIVI)</td>
<td>200 young people enrolled every year</td>
</tr>
<tr>
<td>12</td>
<td>DANIDA Private Sector Dev Program – ASPS II, Radio Listeners’ Project.</td>
<td>280 000 Radio listeners (households)</td>
</tr>
<tr>
<td>13</td>
<td>Warehouse Receipt System (WRS) Project</td>
<td>3 Warehouses (Jinja, Kasese &amp; Masindi), with 130 depositors (70% farmer groups, 30% traders), 2,000 farmers from the hinterland of the warehouses, trained.</td>
</tr>
<tr>
<td>14</td>
<td>Developing Infrastructure and Financial Services (UIA,PSFU) – Namanve Industrial/Business Park</td>
<td>230 firms</td>
</tr>
<tr>
<td>No.</td>
<td>Program Description</td>
<td>Estimated Beneficiaries</td>
</tr>
<tr>
<td>-----</td>
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<td>-------------------------</td>
</tr>
<tr>
<td>15</td>
<td>Business Uganda Development Scheme – Enterprise Development Support (BUDS - EDS) (PSFU)</td>
<td>2,481 MSEs</td>
</tr>
<tr>
<td>16</td>
<td>Financial Management for MSMEs (PSFU)</td>
<td>All commercial banks &amp; MDIs</td>
</tr>
<tr>
<td>17</td>
<td>Business Plan Competition (BPC) (PSFU)</td>
<td>1,189 MSEs</td>
</tr>
<tr>
<td>18</td>
<td>Technology Acquisition Fund (PSFU)</td>
<td>9 MSEs</td>
</tr>
<tr>
<td>19</td>
<td>Business Branding Initiatives (PSFU)</td>
<td>10 MSEs</td>
</tr>
<tr>
<td>20</td>
<td>Better Business Behaviour Award Scheme (PSFU). <em>Scheme taken over by banks. (Funds re-allocated to BUDS)</em></td>
<td>40 Beneficiaries including banks &amp; 6 industry associations</td>
</tr>
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<td>21</td>
<td>BUDS-ERT (PSFU)</td>
<td>-30 firms: Solar PV development -250 solar technicians trained</td>
</tr>
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<td>22</td>
<td>Business Service Market Development Project (DFID)</td>
<td>MSMEs in general</td>
</tr>
<tr>
<td>23</td>
<td>Commercial Justice Reform Programme (MoJCA)</td>
<td>MSMEs in general</td>
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<tr>
<td>24</td>
<td>Development Credit Authority (DCA) Loan Guarantee Program (USAID)</td>
<td>Facility open to financial institutions</td>
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<td>Uganda Business Information Network (UBIN) UNIDO, MTTI</td>
<td>8 DBICs (District Business Information Centres), 110 info inquiries processed, 580</td>
</tr>
<tr>
<td>27</td>
<td>Uganda Integrated Programme (UIP) – Women Garment &amp; Textile MSEs (2005-2006)</td>
<td>518 women owned MSEs</td>
</tr>
<tr>
<td>28</td>
<td>Uganda Integrated Programme (UIP) – Master Craftsman Prog- Rural Women MSEs (2005-2007)</td>
<td>587 MSEs 54 District Execs 277 MCP Advisors</td>
</tr>
<tr>
<td>29</td>
<td>Uganda Programme for Trade Opportunities and Policy (UPTOP)</td>
<td>621 individuals from (a) Private sector: 294 (b)Public sector: 174 (c)Academics: 67, (d) Civil society: 36</td>
</tr>
<tr>
<td>30</td>
<td>Improve the Legal &amp; Regulatory Environment for Business through Regulatory Best Practices (RBP)</td>
<td>10 Urban &amp; Local Governments</td>
</tr>
</tbody>
</table>

(c) Programs influencing the informal sector (especially HEs) - general

<table>
<thead>
<tr>
<th>Name/Title</th>
<th>Type/ Designation</th>
<th>Key Objective</th>
<th>Problem Addressed</th>
<th>Type of Intervention</th>
<th>Participating Institution</th>
<th>Target Beneficiaries</th>
<th>Financing Sources</th>
<th>Expected Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 UNIDO Microsoft ICT services for MSMEs Project</td>
<td>Project</td>
<td>Provide integrated business information to MSMEs</td>
<td>How ICT can support MSME’S</td>
<td>Improving access by MSMEs to business information</td>
<td>UNIDO/GOU</td>
<td>MSMEs</td>
<td>Microsoft Corporation</td>
<td>Access to broader business information, internet services, entrepreneurial skills, ICT integrated in MSMEs work plans</td>
</tr>
<tr>
<td>2 DANIDA Private sector Development program</td>
<td>Program</td>
<td>Business linkage</td>
<td>Business Partners with local investors</td>
<td>Promoting market, capital &amp;Technology linkages</td>
<td>DANIDA/GOU</td>
<td>Private companies/business.</td>
<td>DANIDA</td>
<td>Knowledge and skills to address global business challenges, improved management among businesses, business receive assistance for export promotion.</td>
</tr>
<tr>
<td>3 Warehouse Receipt Project</td>
<td>Project</td>
<td>To promote privately run warehouse systems, strengthen Coffee/ Cotton quality assurance services, develop a system of commodity trade finance based on commodity inventory</td>
<td>Improved stock quality and increased revenues for small farmers and traders through produce bulking, and warehousing standards</td>
<td>Building warehouses in partnership with private developers,</td>
<td>MTTI</td>
<td>Owners of private warehouses</td>
<td>Common Funds for Commodities, International Coffee Federation</td>
<td>Lump sum earnings; Improved standards of warehousing hence increased shelf life of produce in storage.</td>
</tr>
<tr>
<td>4 Instructors’ Training for Vocational Education and Training in Uganda Project</td>
<td>Project</td>
<td>To improve training skills of instructors in Nakawa Vocational Training Institute</td>
<td>To develop new qualifications for instructors in TVET (Technical, Vocational Education and Training),</td>
<td>Training of instructors in Vocational education and training skills</td>
<td>MOES/Nakawa Vocational Training Institute</td>
<td>Young secondary school students who show interest in the profession, Technical and vocation school instructors</td>
<td>JCA (Japan International Cooperation Agency)</td>
<td>A system able to train highly qualified instructors in place, Highly trained and relevant vocational professionals available in the Country, Quality of TVET upgraded, Enhanced capacity for sustainable self employment.</td>
</tr>
<tr>
<td>5 Second Private Sector Competitive Project (PSCP)</td>
<td>Project</td>
<td>To facilitate private sector development, Encourage investment in Uganda, To increase the competitiveness of Uganda’s private sector</td>
<td>Low private sector growth and reduce cost of doing business in the country, improve competitiveness and responsiveness to</td>
<td>skills training, technology, and business development services; and improve the business environment and the</td>
<td>UIA/PSFU</td>
<td>The private sector including MSMEs</td>
<td>IBA (International Development Association)</td>
<td>10,000 new jobs created in the formal sector by project end, Number of formal enterprises increased by 10%, Exports of non-traditional commodities increased, Total output per worker increased</td>
</tr>
<tr>
<td></td>
<td>Project</td>
<td>Weak capacity of women entrepreneurs</td>
<td>To strengthen operational efficiency and competitiveness of enterprises through entrepreneurial and business mgnt training, business planning and diagnostic studies, business advisory and counselling services, market linkages, technology upgrade, support to women’s groups.</td>
<td>Enterprise Uganda</td>
<td>Women Entrepreneurs</td>
<td>Government of Norway</td>
<td>Women entrepreneurs’ business management capabilities improved; Women entrepreneurs accessing key business development services ,women entrepreneurs enjoy increased profits, networks and business confidence Chances of accessing markets increased due to the network created by the association Increased confidence levels as a result of goals realised; Improved household incomes.</td>
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<tr>
<td>6 Strengthening Women Entrepreneurs in Uganda</td>
<td>Project</td>
<td>To enhance the participation of women both in rural and urban areas in economic development</td>
<td></td>
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<tr>
<td>7 Graduate Empowerment programme</td>
<td>Program</td>
<td>To empower graduates to become job creators and to enhance enterprise development in the country</td>
<td>Lack of business skills among unemployed young graduates.</td>
<td>Business skills training and innovation in identifying business opportunities</td>
<td>Enterprise Uganda</td>
<td>Young Unemployed Graduates</td>
<td>GOU Jobs created, business mgnt skills acquired and used to undertake business activities Graduates who receive the training are motivated, and encourage others to take it up.</td>
<td></td>
</tr>
<tr>
<td>8-Developing Infrastructure and Financial Services</td>
<td>Program</td>
<td>To provide priority infrastructure and related facilities to support the growth of modern industries and business sector</td>
<td>Lack of serviced industrial, business/commercial land for investment hence reducing cost of investment</td>
<td>Project involves providing infrastructure facilities in the form of serviced industrial land for primary, industrial and business activities</td>
<td>UIA</td>
<td>Private sector including local and international investors</td>
<td>International Development Association, World Bank Land access and site development period reduced from 453 days to 70 days; Export infrastructure improved, Export Processing Zones established; UIA’s Capacity enhanced, Investment start up time greatly reduced by fully industrial park serviced; Business registration licensing processes greatly shortened; Savings realised in terms of time and resources.</td>
<td></td>
</tr>
<tr>
<td>9 Business Uganda Development Scheme – Enterprise Development Support (BUDS - EDS)</td>
<td>Project</td>
<td>To increase the competitiveness, sales and profitability of Ugandan private firms, by offering a 50% cost share grant, towards the use of business support services.</td>
<td>Limited business information to meet the challenging competitiveness</td>
<td>Provides useful business support services like market, technical or financial expertise available for purposes of becoming more productive and competitive</td>
<td>PSFU</td>
<td>Locally incorporated and operational private enterprises that have been in existence for at least one year.</td>
<td>Participating MSMEs productivity enhanced: Value added per worker increased; Enterprises registering new formal businesses increased; Use of business development services increased, Increased</td>
<td></td>
</tr>
<tr>
<td>Project</td>
<td>Summary</td>
<td>Benefits</td>
<td>Organization</td>
<td>Notes</td>
<td></td>
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</tr>
<tr>
<td>10 Financial Management for MSMEs</td>
<td>To provide matching grants for financial management to support MSMEs in preparing financial accounts and audits reports.</td>
<td>Lack of capacity to make financial statements to access financial services from Financial institutions. Assisting MSMEs to prepare financial accounts and audit reports that can facilitate them access financial assistance from banks.</td>
<td>PSFU</td>
<td>MSME’S, International Development Association</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11 Business Plan Competition Grant (BPC)</td>
<td>To increase innovation, product development and the entrepreneurship potential among the local business community.</td>
<td>Improve business competitiveness among MSME’S. The grant is meant to cover the cost of implementing the pilot of the innovative business line, that was the subject of the winning business plan. The main target of the grant is innovative, micro and small projects with a view to ensuring coverage of large number of participants.</td>
<td>PSFU</td>
<td>MSME’S, International Development Association</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12. Technology Acquisition Fund</td>
<td>To increase on the level of export items from Uganda To support the competitiveness of Uganda’s exports in the international market To improve on the quality of Uganda’s export products along an export supply chain, and to increase the skills along an export supply chain.</td>
<td>Low quality of exports, less competitiveness and improvement of skills in supply chain. It’s a matching grant facility with a focus on raising skills, standards, and the quality of firms in export supply chains so as to meet international standards based on demonstrated export orders.</td>
<td>PSFU</td>
<td>Private business firms, International Development Association</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13 Enterprise Skills and Linkages (ESL) Program</td>
<td>To support businesses and formal training providers, encourage entrepreneurship, new product development, and innovation in the business.</td>
<td>Limited skills and competences among workers and job seekers. Formal training providers. It will also encourage entrepreneurship, new product development, and</td>
<td>PSFU</td>
<td>MSMEs, traditional apprentices without formal education, and TVET students, International Development Association</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

firm-level productivity. Growth of commercial MSME loans. MSMEs final accounts prepared according to internationally accepted accounting standards, MSMEs audit reports prepared in line with accepted auditing standards; Improved access to banking services; Improved Cash flow management; MSMEs maintain financial records that satisfy minimum requirements for accessing credit from commercial banks and other financial institutions. New business ideas developed and supported, Employment created New technologies from competitiveness business environments adopt Growth in confidence in conceptualization of business ideas, Increased income for that business owner. Patents or manufacturing rights procured, Prototypes procured and used by business enterprises, Technology transfer to facilitate the physical development of new products, New quality control equipments acquired and in use, Staff trained and competent to handle challenges of the business Environment Better linkages exist between private enterprises and Technical, Vocational Education and Training Institutions, Innovative business concepts & upgrading of workers skills.
<p>| 14 Business Brand Linkages | Project | To create an enabling framework for increased participation in the higher value segment of the supply chain, strengthen private sector capacity to market and create equity in the brand | Weaknesses in, business branding, marketing and Supply chain processes | Empower Ugandan producers to share in the intellectual property associated with the country's brand, improving marketing and branding at the firm level | PSFU | Private Sector and Farmers in the private sector | International Development Association | More efficient Value Chains, Improved marketing and branding partnerships, Productivity gains at the firm levels, Skills acquired in the whole process, More confidence in business management and a readily available world market arising from the partnership. |
| 15 Better Business Behaviour Award Scheme | Project | To promote an innovative mechanism for rewarding MSMEs operating in highly professional manner, and sound corporate governance including timely compliance and business registration requirements. To provide matching grants to first mover MSMEs for timely loan repayment. | Limited capacity in governance, tax management and professionalism in business operations | Providing matching grants to “fast moving” MSME’S for loan repayment and tax requirement compliance, business registration and good governance | PSFU | SMEs | International Development Association | Commercial Banks and other lending institutions motivated to lend to the MSMEs, Loan repayment discipline among MSMEs enhanced, Discipline of MSMEs in maintaining of financial records greatly improved Access to credit by MSMEs greatly eased, Rate of growth among MSMEs improved. |
| 16 BUDS-ERT (Energy for rural transformation) | Project | To develop private sector capacities to attract, operate and improve rural electrification related businesses | Lack of power extension to rural areas | Rural Electrification/Power extension | PSFU | Local firms engaged in Energy and ICT sectors | Government of Uganda with the support of IDA/GEF | More private sector firms take up rural electrical business ventures, New agro-industrial processing firms established Increased business turnover Rural enterprises’ responsiveness to business opportunities enhanced. |
| 17 Business Service Market Development (BSMD) | Project | To enhance the supply chain with rural SMEs providing substantial inputs, to enable rural enterprises access markets, and BDS | Inefficient supply chain system, markets and BDS | Strengthening supply chains linking rural MSMEs to national, regional and international markets | DFID | Agro-business, farmers, and BDS providers | DFID | Rural SMEs ably supplying inputs, Rural SMEs accessing markets through a market information system, Enhanced firm level gains from the supplies of materials; SMEs enjoy technology transfer in respect of quality material |</p>
<table>
<thead>
<tr>
<th>Project</th>
<th>To establish Commercial Court, undertake Commercial Law Reform, Companies and Land Registry Reform, commercial Lawyers Capacity Building</th>
<th>Unfavourable legal provisions that affect commercial disputes</th>
<th>Reforming of the commercial laws, Training of commercial lawyers</th>
<th>Min of Justice and Constitutional Affairs</th>
<th>Private Sector and JLOS commercial Justice Institutions</th>
<th>DFID</th>
<th>Laws and regulations affecting business reformed; Improved business registration services; Systems and procedures for business registration developed; Time savings from the registration process; Capital that would have been paid out as bribes to quicken the process is retained for the business’ plans.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project</td>
<td>To facilitate all African ACP in the cooperation and partnership agreements between African ACP EU enterprises</td>
<td>Limited Credit facilities to Firms in stone Quarry business</td>
<td>Equipment loaned out to enterprises in the stone quarry business</td>
<td>PSFU</td>
<td>Private actors and SME's dealing in the stone quarrying industry Sector</td>
<td>CDE Antennae</td>
<td>Capital disbursements made for business purposes; High output at the firm level; Technology acquisition; Knowledge and skills acquired; Improved business management.</td>
</tr>
<tr>
<td>Project</td>
<td>To mobilise private capital to finance economically viable development initiatives in the rural sector</td>
<td>Inadequate credit facilities for business development</td>
<td>Mobilising private capital to finance economically viable development initiatives</td>
<td>USAID</td>
<td>SMEs and Agricultural Enterprises, MFI's, Commercial banks</td>
<td>USAID</td>
<td>Participating banks placed 37 loans under DCA by Jan 2003 equivalent to about 26% of the guarantee facility. Business owners mobilized to create own capital from their savings; Quick access to locally available credit facilities; Improved local credit mgmt, and confidence in local solutions to credit problems.</td>
</tr>
<tr>
<td>Project</td>
<td>To develop Uganda's rural energy and information /communication technology (ICT) sectors so as to bring about rural transformation</td>
<td>Limited capacity in ICT field</td>
<td>Assisting the Govt of Uganda by providing consulting services at Ministerial level</td>
<td>World Bank</td>
<td>Private Sector</td>
<td>IBRD/IDA</td>
<td>Rural services and infrastructure developed; Education for knowledge economy created; Access to marketing and business information, knowledge and skills acquisition facilitating better business management</td>
</tr>
<tr>
<td>Project</td>
<td>To introduce and establish modern, sustainable and high-performance feed-based technologies for commercially-oriented cage and pond-base</td>
<td>N/a</td>
<td>N/a</td>
<td>FIRRJinja</td>
<td>Producers, Households, Traders and exporters</td>
<td>N/a</td>
<td>High performance feed technologies introduced and adapted; Grants given out to progressive fish farmers; Skills and knowledge acquired; Demonstration centre established; Improved production; Access to available technologies eased.</td>
</tr>
<tr>
<td>Project</td>
<td>To build capacity and professionalise microfinance operations; expand outreach of microfinance services to</td>
<td>Addressing the uncoordinated financial services delivery to the community</td>
<td>Monitoring the and regulating the operations of financial institutions in the country</td>
<td>Ministry of Finance and Economic Development</td>
<td>Microfinance Institutions, Households, and MSEs</td>
<td>GOU/ Devt Partners</td>
<td>Outreach of financial services in the Rural Financial System, expanded; Capacity of Rural Financial Institutions and Clients enhanced; Uganda’s Rural</td>
</tr>
<tr>
<td>Project</td>
<td>Description</td>
<td>Implementor</td>
<td>Outcome</td>
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</tbody>
</table>
| 24. SUFFICE (Support to Feasible Financial Institutions and Capacity Building Efforts) | To assist efficient financial institutions to become sustainable and interlinked to offer high-quality and diversified financial services  
Fragile financial institutions capacity to operate sustainably  
Building capacity of Financial institutions in credit management and governance matters | Ministry of Finance and Economic Development  
MFI's, SACCOs, Microfinance services providers | Financial System strengthened and upgraded; Coordination, monitoring & evaluation and information dissemination in the Microfinance sector harmonised; Enterprise growth enhanced; acquisition of knowledge and skills from capacity building sessions enhanced. |
<table>
<thead>
<tr>
<th>Program</th>
<th>Objective</th>
<th>Expected Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>28 Uganda Programme for Trade Opportunities and Policy (UPTOP)</strong></td>
<td>To generate income and improve nutrition in rural Uganda by working to stimulate oilseed production and processing. Limited knowledge of trade opportunities by the local investors</td>
<td><strong>N/a</strong>&lt;br&gt;UPTOP, Plot 1 Pilkington road, 6th Floor Workers house&lt;br&gt;MTTI, PSFU, ITC, academic and research institutions, producers, traders and exporters, national and grass root associations</td>
</tr>
<tr>
<td><strong>29 Improve the Legal and Regulatory Environment for Business through RBP (MoFPED/MTTI)</strong></td>
<td>Promotion of regulatory best practices (RBP) by Government of Uganda. Improving the environment for business growth</td>
<td><strong>N/a</strong>&lt;br&gt;MTTI</td>
</tr>
</tbody>
</table>
ANNEX 6

INSTITUTIONS AND PROGRAMS SUPPORTING HE* S ACCESS TO FINANCIAL SERVICES
INSTITUTIONS AND PROGRAMS SUPPORTING HE’ S ACCESS TO FINANCIAL SERVICES

1. Institutions

1.1. Microfinance Support Centre Ltd (MSCL)

Key objectives
Microfinance Support Centre is a wholly state owned institution incorporated in 2001 to provide sustainable financial services to the economically active poor in Uganda through viable partner organisations (POs). Its key objectives include the following:

(a) To expand market outreach by increasing the loan portfolio to partner organisations by 100% p.a. as well as enhancing their capacity to serve clients more effectively,

(b) To improve product development and enhance quality by introducing sustainable products as well as expanding the range and benefits of products offered to clients.

Brief description
Its partner organisations include savings and credit cooperative organisations (SACCOs) and indigenous microfinance institutions (MFIs). MSCL supports POs through provision of wholesale credit for on-lending to their clients. The main loan products offered include commercial loans, start-up loans, solar loan and the agricultural loan product. In addition, MSCL provides POs with a wide range of capacity building services with the aim of enabling them build the capacity necessary to deliver financial services to their clients on a sustainable basis. The capacity building support includes training, on-site technical assistance and logistical support.

1.2. Association of Microfinance Institutions of Uganda (AMFIU)

Key objectives
The association has the following objectives:

(a) To enhance collective action by MFIs and other stakeholders for a conducive policy and regulatory environment for microfinance in Uganda

(b) To strengthen the capacity of MFIs to deliver appropriate and sustainable financial services to the economically productive poor through co-ordination and organisation of lateral learning workshops, thematic debates, exchange visits, and linkages with other organisations.

(c) To develop and operationalise a Performance Monitoring System for MFIs that will help set standards and benchmarks as well as increase professionalism in the microfinance sub-sector.

Brief description
AMFIU was borne out of a forum of working groups initiated by the UNDP in 1996 to identify ways of dealing with constraints of MSEs (micro and small enterprises). One of these groups was a small focus group discussing the financial needs of Micro Enterprises (MEs). The group consisted mainly of the Central Bank, two commercial banks, Micro Finance Institutions (MFIs), Donors and representatives of Micro Enterprises. The main purpose of this forum was to discuss the needs of MEs. Microfinance was regarded only as an instrument to overcome the deficiencies of MEs. With the passage of time, more MFIs joined and the focus shifted to discussing the needs of MFIs. The transformation eventually led to the formation of AMFIU in 1998.
1.3. Uganda Cooperative Savings and Credit Union (UCSCU)

Key objectives
The overall objective of UCSCU (The Uganda Cooperatives Savings and Credit Union Limited) is to foster the organization and development of Savings and Credit Cooperatives in Uganda and to improve their internal operations. Its specific objectives include the following:

(a) To cause the organization and development of Savings and Credit Cooperatives (SACCOs) in Uganda in order to bring about greater participation by the people of Uganda in the activities of personal thrift, money management, and prudent use of credit;

(b) To promote, sponsor and develop educational and training programs to educate Savings and Credit Cooperatives (SACCOs) in the proper methods, procedures and principles of safe and sound operations;

(c) To promote publicity and public relations activities as may be required to inform, influence, maintain and broaden community awareness and public understanding of the importance of Savings and Credit Cooperatives services and benefits, and to create community awareness of the savings and credit cooperative development through sponsored savings and cooperatives events, and by cooperating with the activities of business, labour, governmental, fraternal, civic organizations and educational institutions;

(d) To engage in research and development and to supply related information as required by its members.

Brief description
UCSCU is formed, financed, owned and controlled by Savings and Credit Cooperative Societies (SACCOs). The SACCOs elect a Board of directors, which formulates policies. The Board of UCSCU then hires management for the day-to-day operations. The AGM also elects a Supervisory Committee which works as the internal audit committee or watchdog for UCSCU. The supervisory committee checks both the board and management to ensure that they are running the Union well and in the best interest of the SACCOs. UCSCU offers its member SACCOs a wide range of products and services, key of which include: Capacity building and training; Technical services; Central Finance Facility; Loan Protection Fund; Marketing services; Representation; Lobbying and Advocacy, and Supervision of SACCOs.

1.4. Uganda Cooperative Alliance (UCA)

Key objectives
Uganda Cooperative Alliance (UCA) was set up with three main objectives namely:

(a) To advocate for and represent Ugandan cooperatives,

(b) To educate and train members and leaders of the cooperative movement in Uganda, and

(c) To mobilise resources for the development of the cooperative movement in Uganda.

Brief description
UCA is an umbrella body of cooperatives in Uganda. It was registered in 1961 under the cooperative ordinance 1946 as amended. Its membership comprises cooperatives from a wide range of sectors covering production, marketing, financial and transport services. In mid 1990s when the co-operative movement was on a steep decline, UCA undertook the challenge of reviving the movement by initially promoting the growth of self-reliant rural financial cooperatives; which would then act as engines for the growth of the other types of co-operatives.
UCA supports rural SACCOs through its microfinance department with staff both at the head office as well as the sub-regional offices, which deliver co-operative support services to SACCOs in the following categories:

- Building the technical capacities of SACCOs through training members covering topics such as how to own, use, control and benefit from their SACCOs, and training leaders and management staff in governing best practices, providing them with governance, management, operating and reporting systems;
- Provision of basic logistical support services (on need basis) mainly basic start up support kits to enable the young SACCOs start their operations smoothly, assisting SACCOs establish and commence their operations based of self-help model as opposed to the credit driven approach and carrying out internal audit and supervision of SACCOs;
- Provision of internal audit and supervision services to ensure that they operate in accordance with micro finance sound practices and comply with their bylaws, policies and procedures as well as the co-operatives law and regulations.

2. Programs

2.1. Prosperity for All (PFA)

Key Objectives
The general objective of PFA is to empower households in Uganda to meet their basic needs and be able to have a target gross income of at least Shs 20 million per year. Its specific policy objectives include the following:

(a) To improve agricultural productivity,
(b) To increase access to financial services
(c) To enhance market access and value addition

Brief description
In addition to its specific policy objectives, the PFA seeks to support urban as well as rural household enterprises including artisans, petty traders, boda-boda operators and others. The PFA complements existing government policies and programs aimed at improving the lives of all citizens. The program also provides for the creation of financial services framework under which government will support households to start community based financial savings and credit cooperatives (SACCOs) in sub-counties where none are in existence. Under the same financial services framework a regulatory framework is proposed to ensure safe, sound and sustainable management of SACCOs.

Expected outcomes
Following are some of the expected results of the program:

- Households generating income that is greater than the annual household expenditure, including food and nutrition security,
- A vibrant financially-intermediated rural economy linked with the urban, regional and international markets,
- Higher employment opportunities realised.
ANNEX 7

INSTITUTIONS AND PROGRAMS SUPPORTING HEs’ ACCESS TO PROPER WORKSITES AND INFRASTRUCTURE
INSTITUTIONS AND PROGRAMS SUPPORTING HEs’ ACCESS TO PROPER WORKSITES AND INFRASTRUCTURE

1. Institutions supporting HEs access to proper worksites and infrastructure

1.1 MTTI (Ministry of Tourism, Trade and Industry)

Key functions of the Ministry (most relevant to HE operations)
(a) To initiate, co-ordinate, support, oversee and where applicable, facilitate implementation of strategies and programmes aimed at enhancing the development and promotion of tourism, trade, the co-operatives, industry and technology, conservation and preservation of other tradable national products and ensure their maximum benefit to the country.
(b) To conduct studies and evaluate the impact of the sectoral, fiscal and other policies on the advancement of the diversified sector and their effect on the poverty eradication program so as to advise authorities appropriately.
(c) To assess the need for and where necessary mobilise resources to support balanced industrial, co-operatives, tourism, and entrepreneurial development for eradication of poverty in Uganda

Industrial Parks for Jua Kali Enterprises
The ministry plans to develop and upgrade infrastructure to facilitate industrial transformation. In pursuit of this goal, the following actions have been planned:
- For the micro and small scale industries, Government will construct common facilities centres starting with Luzira Industrial Park, and Luwafu, Makindye. More land will be identified at Regional level, in order to duplicate these Jua Kali common facilities upcountry, thus creating a National portfolio of serviced industrial sites.
- Promote the establishment of well serviced commercially oriented infrastructural facilities such as, industrial, science, and technology parks with common facilities. Under the Zonal Industrialisation phase programme, industrial parks will be opened in major towns throughout the country. This will involve both land acquisition and infrastructure development.
- Encourage the involvement of the private sector in infrastructure development by offering special investment incentives

1.2 UGT (Uganda Gatsby Trust)

Key objectives
Uganda Gatsby Trust (UGT) is an NGO based at the Faculty of Technology, Makerere University, which was established for the purpose of supporting small manufacturing and value adding enterprises ‘with the potential to grow’. Under its Industrial Parks Program, UGT develops industrial parks for clubs of Jua kali enterprises to ease access of members to appropriate work sites. The Program has so far developed two industrial parks one at Njeru (Jinja) and the other in Mbarara.

Procedure for Accessing Services: UGT deals with enterprises involved in value addition including: metal fabrication, food processing, textile and garments, wood craft and carpentry, printing and graphics production, ceramics and building materials, grain milling and leather products. To qualify for UGT support, an enterprise must be engaged in the above activities.

2. Programs supporting HEs’ access to proper worksites and infrastructure

2.1 Energy for Rural Transformation Program (BUDS – ERT)
Key Objectives
(a) To develop private sector capacities to attract, operate and improve rural electrification related businesses and
(b) To increase efficient and productive use of electricity and traditional fuel in the rural areas

Expected outcomes
- Increased business turnover of participating enterprises
- Enhanced rural enterprises’ responsiveness to business opportunities.

Brief description of the program
Energy for Rural Transformation (ERT) is a private sector led ten-year programme that was developed by the Government of Uganda with the support of the IDA (International Development Association). The overall goal of this programme is to increase electricity access in rural areas from 1% to 10% by 2012. The project seeks to stimulate rapid growth in rural areas by facilitating access to modern and efficient energy. The main components of the program include the following:
- Extension of the existing electricity grid where feasible;
- Development of renewable energy resources to supply decentralised grid systems;
- Use of solar power systems to supply consumers located in remote areas, including households, schools, health centres as well as community centres.

Realisation of these outcomes and program objectives in general is likely to be affected by a number of challenges especially if the appetite of the private investors is not rejuvenated. According to reports, while the programme was expected to be private sector led, most private entrepreneurs have not shown willingness to commit resources in what they consider to be a long term project that requires substantial capital outlay.
ANNEX 8

INSTITUTIONS AND PROGRAMS SUPPORTING HES’ ACCESS TO SKILLS AND BDS (BUSINESS DEVELOPMENT SERVICES)
INSTITUTIONS AND PROGRAMS SUPPORTING HES’ ACCESS TO SKILLS AND BDS (BUSINESS DEVELOPMENT SERVICES)

1. Institutions supporting HES’ access to skills & BDS
   1.1. Nakawa Vocational Training Institute
   Key Objectives
   The prime objective of the institute is to enhance vocational skills training with a view to equipping young men and women appropriately for the growing industries in Uganda.

   Brief description of the institute
   After its rehabilitation, Nakawa Vocational Training Institute (VTI) has become the most well equipped vocational training institute in the country. The institute has recently reorganized its training programs making them more flexible to accommodate the different needs of the target market. The institute produces highly skilled craftsmen and women who have been gainfully employed in different industries country-wide. Organisations that have noticeably established links with Nakawa VTI are Nile Breweries, Sasakawa Global 2000, Kinyara Sugar Works, UNIDO, Rwenzori Beverages Co., Kakira Sugar works, Uganda Breweries, Mulago Paramedical Department and Coca-Cola Beverages Company. The institute’s main areas of training are the following: automotive; building, construction and the built environment; electrical installation, electrical repair and electronics; engineering and manufacturing technologies; information and communication technology; and instructor and instructional materials development.

   1.2. Uganda Association of Private Vocational Training Institutes
   Key objectives
   The Uganda Association of Private Vocational Institutions (UGAPRIVI) was formed to improve the quality and the image of private vocational institutions, and to strengthen this educational sub-sector as a whole. Its specific objectives include the following:
   - To initiate and support demand-driven and employment-oriented vocational training;
   - To offer training for the management and staff of private vocational institutions;
   - To support the development of quality standards and monitoring;
   - To develop strategic alliances as well as internal and external partnerships.

   Brief description
   When the cooperation between German Development Service (DED) and UGAPRIVI started in early 2003, the emphasis was on organizational development, in particular building up of the Association’s infrastructure at national and regional levels. To ensure the Association’s continued growth, structural changes were necessary. Together, DED and UGAPRIVI developed a restructuring concept based on internationally acknowledged guidelines for professional associations. The key feature of the restructuring process was the review of the governance set up of the association which provided for the separation of powers, making it possible for the organization to render more professional services and to carry out better lobby work at national and regional levels. Together, these developments have led to an enormous membership growth from 155 to 470 members between January 2005 and June 2007 respectively.

2. Programs supporting HES’ access to skills & BDS
   2.1. Training of TVET Instructors in Uganda Project
   Key Objectives
The main objective of the program is to improve training skills of instructors in Nakawa Vocational Training Institute

**Brief description of the program**

The Project seeks to support the Ministry of Education in its bid to develop new qualifications for instructors in TVET (Technical, Vocational Education and Training), and to establish an in-service training system for instructors in Nakawa VTI.

The program which is still ongoing was started in 2007 with the support of the Japan International Cooperation Agency (JICA) and its main beneficiaries include (a) Young secondary school students who come in to undertake the courses of interest and (b) Technical and Vocational Education Instructors.

**Expected outcomes:**

(b) A system able to train highly qualified instructors in place
(c) Highly trained and relevant vocational professionals available in the Country
(d) Quality of TVET upgraded.

According to the program documents, realisation of these outcomes is likely to be affected by Limited external support for the project and the low level of science and vocational skills development in the country.

**2.2. PSFU Enterprise Skills and Linkage Program**

**Key Objectives**

To support businesses (including those providing informal apprentices in the *Jua Kali* sector), and formal training providers, and encourage entrepreneurship, new product development, and innovation in the business world.

**Brief description of the program**

The project seeks to support existing workers and new job seekers with short skills and competence based training, to enable existing workers upgrade and new job seekers acquire some hands-on experience in firms. The initiative is an improvement of the current practice of formal TVET institutions which offer only 2 to 3 year courses with no practical experience. The project was started in 2005 with support from the IDA (International Development Association) and is due to end in 2010. The project's main beneficiaries are MSMEs, traditional apprentices without formal education and TVET students.

**Expected outcomes**

- Improved linkages between private enterprises and TVET institutions.
- More information and experience sharing taking place between trained artisans and local apprentices,
- Innovative business concepts & upgrading of workers skills increase;
- Women entrepreneurs freely access technical skills;
- Participating MSMEs receive training and other business development services;
- Traditional apprentices receive skills oriented training in formal institutions to improve their skills and pass the Uganda Vocational Qualification Framework competence test.
- Workers and school leavers respond to business opportunities in the production supply chain
ANNEX 9

OTHER INSTITUTIONS SUPPORTING HE OPERATIONS
OTHER INSTITUTIONS SUPPORTING HE OPERATIONS

1. Uganda Small Scale Industries Association (USSIA)

Key objectives
(a) To lobby for supportive policies that foster the survival and growth of members enterprises,
(b) To lobby for relevant training opportunities,
(c) To provide members with technical as well as business information and linkages,
(d) To promote the marketing of small scale industries’ products.

Brief description
USSIA was started in 1979 with the goal of enhancing the industrial development of small scale industries in Uganda from the grassroots level. The topmost organ of the Association is the Annual General meeting which elects the board of governors. The Association’s chief executive officer is the General Secretary who is responsible for the day to day affairs of the Secretariat reporting to the Board. The association’s zonal affairs are supervised by zonal chairpersons and industrial sector representatives.

The association’s key achievements include the following:
• Developed information dissemination system for small scale industries;
• Established market promotion centres in some districts;
• Implementation partner for the UNIDO MSE Master Craftsman Programme since 1999;
• USSIA hosts the national coordination committee for MSE development organisations.

2. The Council for Economic Empowerment for Women of Africa (CEEWA) - Uganda

Key Objectives
The goal of CEEWA-Uganda Chapter is to increase the level of women's access to and control over economic resources, namely credit, land, markets, information, and agricultural extension. Its specific objectives include the following:
• to advocate micro-credit principles and standards that meet women's practical and strategic gender needs in a sustainable manner
• to network with other institutions working towards the goal of creating gender equity in poverty eradication initiatives.

Brief description
CEEWA Uganda (The Council for Economic Empowerment for Women of Africa - Uganda Chapter) was initiated at an NGO forum in Uganda in 1994, in anticipation of the Beijing Conference. It was created to articulate regional and country specific strategies to address the causes of poverty and lack of economic empowerment for women in Africa. Principally an advocacy organisation, it targets female and male economic decision-makers responsible for economic policy design and execution at national and district levels, women's organisations, networks and business associations, and micro-finance institutions and financiers.

3. Uganda Women Entrepreneurs Association (UWEAL)

Key objectives
The overall objective of UWEAL is to build a cohesive organisation of sensitised businesswomen that work to bring about economic change in Uganda. UWEAL will continue to build up capacity and train women to run sustainable enterprises in different parts of Uganda.

The specific objectives of UWEAL include the following:
(a) Provide a forum for women who manage or own commercial enterprises;
(b) Work with existing financial institutions and participate in their special programs for women customers.

**Brief description**
UWEAL is a non-governmental organisation registered in 1987 as a company limited by guarantee. It is non-partisan and not for profit. Membership of the association is open to women entrepreneurs, aspiring businesswomen, women professionals, non-governmental organisations (NGOs), and partners in women development organizations. By 2002 the association had grown to a strength of 200 members in Kampala and a countrywide network of 500 members in Lira, Jinja, Soroti, Kabale, Luweero. The association’s affiliations include Uganda Manufacturers Association (UMA), Uganda Small Scale Industries Association (USSIA), and the Uganda National Chamber of Commerce and Industry (UNCCI).

The association’s key achievements include:
- Established a forum for women to work together as entrepreneurs.
- Conducted training in various business skills.
- Supported grass root women by marketing their products.
- Opened seven district branches.
- Started a Savings and Credit scheme throughout the branches.
- Has an established Secretariat

4. **Boda-boda Operators Associations**

**Key objectives**
Attempts to form a national organization have not yet succeeded. However, the majority of *boda boda* operators belong to an association with a local jurisdiction. The association represents them in cases of harassment by security personnel, traces members in cases of theft, or their relatives if there is an accident, and through their ‘stage committees’ enforce discipline and hygiene through fines, suspension of membership and the right to operate, and other sanctions.

**Brief description**
Owing to organisational and logistical challenges boda-boda operators have not yet succeeded in putting in place a national association. Accordingly operators tend to have associations covering their local areas with their own constitutions and *modus operandi*.

The Association takes care of the interests of the owners of boda-bodas (motor cycles/bicycles) as well as the riders. While boda-boda owner riders are household entrepreneurs, hired boda-boda riders are paid workers. The association protects both the owner rider and the hired rider who are members. It is believed that each member of the association pays an annual subscription fee of between U Shs 6,000- and 10,000- depending on the particular association. Each association has a stage committee which intervenes on behalf of its members in case of any problem.
ANNEX 10

ANALYSIS OF THE PERSISTING GAP IN FINANCIAL SERVICES DELIVERY
By William F. Steel
ANALYSIS OF THE PERSISTING GAP IN FINANCIAL SERVICES DELIVERY

Why the Gap in Financial Services Delivery Persists

HEs’ demand for financial services and the ability of financial institutions to meet their demands are conditioned by the costs and risks involved – to both parties.

**HEs’ Demand: Low Assets, Liquidity and Creditworthiness**

Low barriers to entry in most HE activities mean intense competition, driving down rates of return on investment. This both drives down HEs’ capacity to save in order to invest directly, and limits the rates they can afford to pay on loans.

Informal HEs also face high risks of doing business (ranging from fluctuating demand to seizure of goods by authorities), and are also vulnerable to shocks and demands at the levels of the household (e.g., sickness) and community (e.g., funerals). The risks of not being able to repay loans are aggravated if key assets such as land (especially for farmers), house or business equipment have to be pledged as collateral. Hence, even though informal HEs face liquidity problems due to low and uncertain cash flow, they may in the end be reluctant to borrow formally.

For self-employed owner-managers of an informal enterprise, the time required to deposit savings or apply for a loan may deter their use of available financial services. This includes microfinance programmes that require substantial amounts of time (as well as financial guarantees) for group participation. That is, microfinance methodologies that help solve the problems of high cost and risk to the financial institutions often effectively impose these costs on the clients.

For the above reasons, many HEs may not be able to present themselves as –creditworthy|| even to financial institutions oriented toward serving microenterprises and low-income households, and –effective demand|| (willingness to accept terms available on the market) may be considerably less than –perceived demand|| (general expression of a desire for more finance).

**Financial Institutions: High Costs and Risks of Small Transactions**

Worldwide success of microfinance institutions (MFIs) belies perceptions (often attributed to commercial banks) that small, poor, informal borrowers are too costly and risky to serve. Nevertheless, even the best MFIs (reporting to the MIX Microbanking Bulletin, 2008) have to earn an average of 19% on their loan portfolios just to cover operating costs (personnel accounting for over half) of $114 per loan. Hence they may not be able to lower interest rates to the levels that HEs can afford without risking their own survival.

SACCOs may be able to limit costs somewhat through the time put in by members on outreach and governance and the ability to recruit local staff at relatively low salaries. On the other hand, their local nature may limit their ability to reach the scale necessary to spread out basic overhead costs of facilities, management and security sufficiently to achieve lower unit costs than other financial institutions, especially in sparsely populated rural areas (5000 clients is often considered a minimum efficient size for MFIs). SACCOs’ democratic nature means that the interest rates agreed by members have to balance the low-interest demand of borrowers against the high returns sought by shareholders who mainly save. These agreed rates on loans are typically 3-3.5% per month for SACCOs in Uganda – which may exceed what many HEs can afford and still profit from business loans.
The methodologies applied by leading MFIs have succeeded in holding their portfolio at risk (>30 days) below an average of 3% (MBB 2008). And many of their clients do fall in the category of HEs – especially in trading, food preparation and other quick-turnover businesses. But loan recovery remains a severe challenge for less mature MFIs, those focused heavily on their social mission, and those who are serving largely agricultural clients, whose production and marketing risks are particularly difficult to mitigate.
ANNEX 11

FEES LEVIED ON HOUSEHOLD ENTERPRISES
IN THE INFORMAL SECTOR
By Obert Pimhidzai
FEES LEVIED ON HOUSEHOLD ENTERPRISES
IN THE INFORMAL SECTOR

Summary
This analysis investigates the payments made by Household Enterprises in the informal sector to authorities. It shows that a majority (55%) of HEs reported paying fees in one form or another and close to a third paid two or more types of fees. These payments were made irrespective of the registration status of HEs. Indeed, 56% of HEs who paid fees are not registered.

On average, HEs paid 84 300 UG Shillings per annum. The average fee is higher for high turnover firms and among HEs who reported paying more types of fees. Thus HEs that paid many types of fees and generate high revenue, paid the highest amount of fees on average. High turnover firms were more likely to pay more than one fee. This increases high turnover HEs' costs, possibly undermining their sustainability. Fees paid by HEs vary by districts across and within regions. The large variations in the number of fees paid within the same sector or turnover category by area, as well as the average fee paid suggests that entrepreneurs face an erratic and non-transparent fee structure, which probably deters both investment as well as compliance with legal requirements.

Introduction
This analysis uses data from the field survey (see annex 4), to investigate the nature and pattern of payments of fees by HEs to authorities. The survey collected information on the amount and type of fees that HEs pay to authorities for them to operate legally. The fees cover payments for registration, for trading licenses and for other operating permits as required by national and local authorities. Payments for other operating permits include regular payments for use of facilities such as markets for vendors and stages for boda-boda operators and payments for special permits to engage in certain activities like cutting wood for example. Most of these fees are paid regularly. The payment frequency ranges from weekly payments (e.g. for entry market fees for vendors) to annual payments (e.g. trading licenses) while some payments are per unit of output like the case of levies per piece of wood a trader cuts.

Registration Status of HEs
Only 28% of HEs in the informal sector reported being registered to local authorities. This proportion is higher if possessing a trading license is taken as another form of registration. More than 58% of HEs reported having either registered, a trading license or both. HEs in the services (excl trade) sector are more likely to be registered (44%) when compared to the trade sector (25%) and non trade sector (20%). This is shown in Table 19. A disaggregation by major activities shows that HEs engaged in agriculture (0%) and mining (0%) were the least likely to be registered, while those engaged in health and social work were the most likely (77%), followed by wholesalers (75%), transport and communication (52%) and public administration and education (50%).

Table 19 shows the registration status of HEs by their monthly turnover category. It shows that high turnover HEs are more likely to be registered than low turnover HEs. Only 22% of HEs in the lowest turnover category were registered while 38% of HEs in the highest turnover category were registered. Thus the likelihood of an HE registering depends on its sector and turnover.

<table>
<thead>
<tr>
<th>Table 19: Household Enterprise Registration Status by Sector</th>
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<tbody>
<tr>
<td>Sector</td>
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</tr>
<tr>
<td><strong>Trade</strong></td>
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<tr>
<td></td>
</tr>
<tr>
<td><strong>Services excl trade</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Turnover Category</td>
</tr>
<tr>
<td>-------------------</td>
</tr>
<tr>
<td>&lt; 200,000 UGX</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>200,000-399,000 UGX</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>400,000-999,000 UGX</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>&gt;999,999 UGX</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

**Table 20: Household Enterprise Registration Status by Turnover Category**

**How much do HEs pay in fees?**

The average fees paid by HEs is UGX 84 300 per annum. This is equivalent to an effective tax rate of 43%, assuming a return on sales ratio of 10%. As shown in Figure 7, other payments constitute the bulk of payments made by HEs. They contributed to 43% of the average fee paid by HEs. Thus the most common and larger payments reported by HEs are payments for operating permits which in some cases are not clearly defined.

*Figure 7: Disaggregation of the Average Fee Paid by Household Enterprises*
Table 21: Distribution of Number of Fees Paid by Registration Status

<table>
<thead>
<tr>
<th>Number of Payments</th>
<th>Registration Status</th>
<th>No</th>
<th>Yes</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>Number</td>
<td>175</td>
<td>19</td>
<td>194</td>
</tr>
<tr>
<td></td>
<td>Percentage</td>
<td>57</td>
<td>15.7</td>
<td>45.3</td>
</tr>
<tr>
<td>One</td>
<td>Number</td>
<td>95</td>
<td>9</td>
<td>104</td>
</tr>
<tr>
<td></td>
<td>Percentage</td>
<td>30.9</td>
<td>7.4</td>
<td>24.3</td>
</tr>
<tr>
<td>Two</td>
<td>Number</td>
<td>37</td>
<td>50</td>
<td>87</td>
</tr>
<tr>
<td></td>
<td>Percentage</td>
<td>12.1</td>
<td>41.3</td>
<td>20.3</td>
</tr>
<tr>
<td>More than 2</td>
<td>Number</td>
<td>0</td>
<td>43</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td>Percentage</td>
<td>0</td>
<td>35.5</td>
<td>10.1</td>
</tr>
<tr>
<td>Total</td>
<td>Number</td>
<td>307</td>
<td>121</td>
<td>428</td>
</tr>
<tr>
<td></td>
<td>Percentage</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

The majority of HEs reported paying fees irrespective of their registration status. Close to 55% of HEs paid at least one fee, with more than 30% paying two or more fees (see Table 3). A majority (56%) of those who paid at least one fee are not registered. A significant proportion, 28%, of these unregistered firms pays more than one fee. The payments made by unregistered HEs, especially those not meant for trading licenses, require closer scrutiny since they could include bribe payments which harm both HEs and local authorities.

The number of fees paid varied within each sector or turnover category. For example, 28% of HEs in the services sector (excluding trade) reported paying a single fee while 24% paid two fees and 38% did not pay any fee. Among HEs generating more than 1 million per month, 23% did not pay any fee, 26% paid only one fee, 29% two fees and 22% more than two fees. This is shown in Tables 6 and 7 in the appendix. This finding shows the lack of consistency in the structure of fees levied on HEs in the informal sector.

**Who pays more?**

High turnover HEs paid higher fees on average. A disaggregation of the average fee by turnover category presented in Table 22 shows that on average, HEs earning 1 million UG Shillings or more per month, paid more than double the amount of fees paid by HEs generating less than two hundred thousand UG Shillings per month, and nearly 30% more than the fees paid by HEs earning between two and nine hundred thousand UG Shillings per month. This systematic variation in the average fees across turnover category is can be clearly observed from Figure 8.

Table 22: Disaggregation of Average Fees Paid by Turnover Category of HEs

<table>
<thead>
<tr>
<th>Turnover Category</th>
<th>Average Fees</th>
<th>Proportion who did not Pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 200,000</td>
<td>50301</td>
<td>57.9</td>
</tr>
<tr>
<td>200,000-399,000</td>
<td>91833</td>
<td>41.4</td>
</tr>
<tr>
<td>400,000-999,000</td>
<td>97651</td>
<td>36.8</td>
</tr>
<tr>
<td>&gt;999,999</td>
<td>125396</td>
<td>23.2</td>
</tr>
</tbody>
</table>

44 HEs that register in the lowest LC level sometimes do not pay any fees. A HE might be deemed registered by simple notification to the LC.
As expected, the average fees paid increases with the number of fees a HE pays. The average fee among HEs paid more than two fees is 192 000 UG Shillings. This is more than five times the average fees (36 000 UG shillings) paid by HEs paying one fee and more than double the average fees (88 800 UG Shillings) for HEs who paid two types of fees. This pattern remains after controlling for the turnover category of HEs.

As shown in Fig 9, the average fee increases with both the number of fees paid and the turnover category. HEs in higher turnover categories pay higher fees than HEs in lower turnover categories that pay a similar number of fees. Within each turnover category, HEs who made more payments pay higher amount of fees. This shows that some HEs make higher payments than other HEs with comparable turnover simply because they pay more types of fees.

HEs in the high turnover category were more likely to report paying two or more fees than HEs in lower turnover categories. This suggests that high turnover HEs are targeted for multiple fee collection since they pay multiple fees but are not necessarily engaged in more activities. The targeting of high turnover HEs for multiple fee collection increases their costs. This undermines the sustainability of high turnover HEs.
The average fees paid is almost the same across the four major regions. However the pattern by turnover differ, see Table 23 and Figure 10. In the Central and the Western regions, higher turnover HEs paid more than lower turnover HEs. This is not necessarily the case in the Eastern and Northern regions where HEs in the middle turnover categories paid the highest fees on average. A common feature across all regions is that HEs generating less than two hundred thousand UG Shillings per month paid the lowest fees on average.

Across districts, the variation in average fees is high. The average fees paid range from an average of 10 000 UG Shillings per year HEs pay in Hoima in the Western region, to 138 000 UG Shillings paid by HEs in Lira, Northern region. This is shown in Table 26 in the appendix. The average fees presented in the table reveal that within region variation in the average fees paid is very high as well. The wide variations across districts and within regions reduce transparency in the setting and collection of fees paid by HEs as no benchmarks exists.

Table 23: Average Fees Paid by Region and Turnover Category of Household Enterprise

<table>
<thead>
<tr>
<th>Turnover Category</th>
<th>Region</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Central</td>
</tr>
<tr>
<td>&lt; 200,000</td>
<td>43636</td>
</tr>
<tr>
<td>200,000-399,000</td>
<td>77433</td>
</tr>
<tr>
<td>400,000-999,000</td>
<td>81900</td>
</tr>
<tr>
<td>&gt;999,999</td>
<td>121625</td>
</tr>
<tr>
<td>All</td>
<td>83792</td>
</tr>
</tbody>
</table>
Variation in the average fees by sector, number of employees or age of enterprise is not systematic. Thus, turnover and the number of fees paid are the important determinants of the total amount of fees paid by HEs.

**CONCLUSION**
This analysis shows that a majority of HEs reported paying at least one fee in one form or another irrespective of their registration status. The majority of HEs who pay fees are not registered and a significant proportion of them reported paying more than one fee for them to keep operating. This shows that double fee collection from HEs. Indeed, it is the number of fees a HE pays and its turnover category that significantly determine the total amount of fees it pays. There is a possibility that high turnover HEs are a target for multiple fee payments due to their visibility. Such a phenomenon poses a challenge to the sustainability of successful HEs by increasing their costs of operating. There is wide variation of the fees paid by HEs across districts, even within the same regions. In addition, there is no consistency in the fee structure levied on HEs in the same sector or turnover category. This contributes to lack of transparency in the setting and collection of fees paid by HEs thus compounding the problems they face with multiple fee payments.
Appendix

Table 24: Number of Fees Paid by Sector

<table>
<thead>
<tr>
<th>Number of Fees Paid</th>
<th>Trade</th>
<th>Services (excl trade)</th>
<th>Non trade</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>46.8</td>
<td>38.1</td>
<td>51.4</td>
<td>45.9</td>
</tr>
<tr>
<td>One</td>
<td>22.5</td>
<td>27.6</td>
<td>23.4</td>
<td>24.0</td>
</tr>
<tr>
<td>Two</td>
<td>20.3</td>
<td>23.8</td>
<td>17.1</td>
<td>20.3</td>
</tr>
<tr>
<td>More than 2</td>
<td>10.4</td>
<td>10.5</td>
<td>8.1</td>
<td>9.8</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Table 25: Number of Fees Paid by Turnover Category

<table>
<thead>
<tr>
<th>Number of Fees Paid</th>
<th>&lt;200,000</th>
<th>200,000-399,999</th>
<th>400,000-999,999</th>
<th>&gt;999,999</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>57.9</td>
<td>41.4</td>
<td>36.8</td>
<td>23.2</td>
<td>45.7</td>
</tr>
<tr>
<td>One</td>
<td>21.1</td>
<td>28.7</td>
<td>23.5</td>
<td>26.1</td>
<td>23.8</td>
</tr>
<tr>
<td>Two</td>
<td>14.8</td>
<td>23.0</td>
<td>26.5</td>
<td>29.0</td>
<td>20.6</td>
</tr>
<tr>
<td>More than 2</td>
<td>6.2</td>
<td>6.9</td>
<td>13.2</td>
<td>21.7</td>
<td>9.9</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Table 26: Average Household Enterprises Fee Payments by District

<table>
<thead>
<tr>
<th>Region</th>
<th>District</th>
<th>Other Fees</th>
<th>Registration Fees</th>
<th>License Fees</th>
<th>Total Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central</td>
<td>Mubende</td>
<td>7500</td>
<td>31094</td>
<td>28438</td>
<td>67031</td>
</tr>
<tr>
<td>Central</td>
<td>Mukono</td>
<td>27294</td>
<td>9118</td>
<td>9118</td>
<td>45529</td>
</tr>
<tr>
<td>Central</td>
<td>Kampala</td>
<td>11632</td>
<td>9853</td>
<td>11176</td>
<td>32662</td>
</tr>
<tr>
<td>Central</td>
<td>Sembabule</td>
<td>5882</td>
<td>9118</td>
<td>13529</td>
<td>28529</td>
</tr>
<tr>
<td>Central</td>
<td>Luwero</td>
<td>6515</td>
<td>3788</td>
<td>7273</td>
<td>17576</td>
</tr>
<tr>
<td>Eastern</td>
<td>Mbale</td>
<td>50500</td>
<td>39000</td>
<td>20500</td>
<td>110000</td>
</tr>
<tr>
<td>Eastern</td>
<td>Paliisa</td>
<td>32000</td>
<td>10333</td>
<td>20667</td>
<td>63000</td>
</tr>
<tr>
<td>Eastern</td>
<td>Kumi</td>
<td>28000</td>
<td>9052</td>
<td>20603</td>
<td>57655</td>
</tr>
<tr>
<td>Eastern</td>
<td>Mayuge</td>
<td>25000</td>
<td>0</td>
<td>6667</td>
<td>31667</td>
</tr>
<tr>
<td>Eastern</td>
<td>Bugiri</td>
<td>12400</td>
<td>0</td>
<td>13000</td>
<td>25400</td>
</tr>
<tr>
<td>Eastern</td>
<td>Kapchorwa</td>
<td>0</td>
<td>938</td>
<td>11563</td>
<td>12500</td>
</tr>
<tr>
<td>Northen</td>
<td>Lira</td>
<td>74400</td>
<td>30000</td>
<td>34000</td>
<td>138400</td>
</tr>
<tr>
<td>Northen</td>
<td>Gulu</td>
<td>30800</td>
<td>5000</td>
<td>20667</td>
<td>56467</td>
</tr>
<tr>
<td>Northen</td>
<td>Apac</td>
<td>11267</td>
<td>20500</td>
<td>11000</td>
<td>42767</td>
</tr>
<tr>
<td>Northen</td>
<td>Nebbi</td>
<td>8400</td>
<td>3917</td>
<td>11333</td>
<td>23650</td>
</tr>
<tr>
<td>Northen</td>
<td>Nakapiripit</td>
<td>6200</td>
<td>2000</td>
<td>2000</td>
<td>10200</td>
</tr>
<tr>
<td>Region</td>
<td>District</td>
<td>2011</td>
<td>2012</td>
<td>2013</td>
<td>2014</td>
</tr>
<tr>
<td>-----------</td>
<td>------------</td>
<td>-------</td>
<td>-------</td>
<td>-------</td>
<td>-------</td>
</tr>
<tr>
<td>Northern</td>
<td>Koboko</td>
<td>27600</td>
<td>18000</td>
<td>25667</td>
<td></td>
</tr>
<tr>
<td>Western</td>
<td>Kasese</td>
<td>89412</td>
<td>19706</td>
<td>14412</td>
<td></td>
</tr>
<tr>
<td>Western</td>
<td>Mbarara</td>
<td>23447</td>
<td>12895</td>
<td>28421</td>
<td></td>
</tr>
<tr>
<td>Western</td>
<td>Kabarole</td>
<td>2308</td>
<td>15000</td>
<td>41923</td>
<td></td>
</tr>
<tr>
<td>Western</td>
<td>Kisoro</td>
<td>14563</td>
<td>7500</td>
<td>17188</td>
<td></td>
</tr>
<tr>
<td>Western</td>
<td>Ntungamo</td>
<td>8722</td>
<td>1667</td>
<td>19306</td>
<td></td>
</tr>
<tr>
<td>Western</td>
<td>Kabale</td>
<td>4176</td>
<td>441</td>
<td>11176</td>
<td></td>
</tr>
<tr>
<td>Western</td>
<td>Hoima</td>
<td>938</td>
<td>8125</td>
<td>938</td>
<td></td>
</tr>
<tr>
<td>All</td>
<td></td>
<td>19703</td>
<td>10051</td>
<td>15868</td>
<td></td>
</tr>
</tbody>
</table>
ANNEX 12

Uganda Country Study

Raising productivity and reducing the risks of Household Enterprises

Pilot Project - Outline
## Uganda Country Study: Raising productivity and reducing the risks of Household Enterprises

### Pilot Project - Outline

#### Issue 1: Coordination of HE support initiatives

**Recommendation to be tested**

- (a) Creation of the NCC (National Coordination Committee) to coordinate HE support initiatives
- (b) Introduction of an HE function at the sub-county level to coordinate & monitor all HE support initiatives
- (c) Redefine the CDO (Community Development Officer) job to cover the HE function, reporting to the DCO (District Commercial Officer)

<table>
<thead>
<tr>
<th>Pilot Activities</th>
<th>Expected outcome</th>
<th>Resp Centre</th>
<th>Performance Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>(A) Foundational Activities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Making the arrangements necessary to establish the NCC</td>
<td>NCC established</td>
<td>MTTI</td>
<td>NCC Minutes</td>
</tr>
<tr>
<td>2. Selecting districts and sub-counties to be included in the pilot</td>
<td>Pilot coverage known</td>
<td>NCC</td>
<td>Field reports</td>
</tr>
<tr>
<td>3. Develop a framework to identify, register, monitor &amp; evaluate HE support initiatives nationally &amp; at the sub-county level.</td>
<td>Framework for Reg., M&amp;EE of HE support initiatives</td>
<td>NCC</td>
<td>NCC Policy document</td>
</tr>
<tr>
<td>4. Designing and introducing an HE function at the sub-county</td>
<td>HEs function established at the sub-county level</td>
<td>NCC (MoPS, MoLG)</td>
<td>NCC minutes</td>
</tr>
<tr>
<td>5. Redefining the CDO job to cover the HE function</td>
<td>CDO responsible for the HE function</td>
<td>NCC (MoPS, MoLG)</td>
<td>CDO job description</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(B) Recurrent Activities</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Identifying and registering HE support initiatives</td>
<td>All major HE support initiatives registered</td>
<td>NCC, CDO</td>
<td>No of HE support initiatives registered</td>
</tr>
<tr>
<td>2. Undertaking M&amp;EE of HE support initiatives periodically</td>
<td>M&amp;E results</td>
<td>NCC, CDO</td>
<td>M&amp;E reports</td>
</tr>
<tr>
<td>3. Review HE support initiatives regularly to identify challenges faced, and promote harmony &amp; complementarity in HE support</td>
<td>HE support initiatives operating in harmony</td>
<td>NCC</td>
<td>No of review missions carried out per period</td>
</tr>
</tbody>
</table>

#### Issue 2: Access to knowledge and skills

**Recommendation to be tested**

- (a) Promote the development of informal training necessary to meet HEs’ needs
- (b) Mobilise & sensitise HEs to enroll for and attend vocational, business & other skills training necessary to satisfy identified training needs
### (A) Foundational Activities

<table>
<thead>
<tr>
<th></th>
<th>Pilot Activities</th>
<th>Expected outcome</th>
<th>Resp Centre</th>
<th>Performance Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Reviewing the PEVOT CP based Local Skills Development (LSD) Pilot Project to establish what works best for HEs</td>
<td>Lessons from the LSD pilot project documented</td>
<td>NCC</td>
<td>Project review report</td>
</tr>
<tr>
<td>2</td>
<td>Mobilising, sensitising and facilitating HEs to form stable, homogeneous, coherent groups in the sub-county’s commercial centres including (RGCs)</td>
<td>Stable, coherent HE groups formed in every commercial centre</td>
<td>CDO</td>
<td>No of HE groups</td>
</tr>
<tr>
<td>3</td>
<td>Identifying service providers able to tailor and deliver capacity building services needed by HEs</td>
<td>Capacity building service providers identified</td>
<td>CDO/ DCO</td>
<td>No of service providers identified</td>
</tr>
</tbody>
</table>

### (B) Recurrent Activities

<table>
<thead>
<tr>
<th></th>
<th>Pilot Activities</th>
<th>Expected outcome</th>
<th>Resp Centre</th>
<th>Performance Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Assessing capacity building needs of the sub-county’s HEs</td>
<td>HEs needs established</td>
<td>CDO</td>
<td>Assessment report</td>
</tr>
<tr>
<td>2</td>
<td>Mobilising &amp; sensitising private sector players to invest in the development of informal training needed by HEs</td>
<td>Private sector players investing in VTIs</td>
<td>DCO/ NCC</td>
<td>No of VTIs started by the private sector</td>
</tr>
<tr>
<td>3</td>
<td>Mobilising &amp; sensitising HEs to enroll for, and to attend vocational, business &amp; other skills training necessary to satisfy their capacity building needs.</td>
<td>HEs’ access to knowledge &amp; skills eased</td>
<td>CDO, DCO</td>
<td>(a) No of HEs attending training (b) no of trainings held.</td>
</tr>
</tbody>
</table>

## Issue 3: Access to financial services

### Recommendation to be tested

(a) Strengthen existing SACCOs (to make them more attractive to HEs)

(b) Sensitise and facilitate HE groups to form SACCOs (where there are none in existence)

(c) Provide regular training to SACCO members to enable them check the excesses of their executives

<table>
<thead>
<tr>
<th></th>
<th>Pilot Activities</th>
<th>Expected outcome</th>
<th>Resp Centre</th>
<th>Performance Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Assessing capacity building needs of existing SACCOs’ executives</td>
<td>Needs of existing SACCO executives established</td>
<td>CDO</td>
<td>Assessment report</td>
</tr>
<tr>
<td>2</td>
<td>Identifying service providers able to tailor and deliver capacity building services necessary to satisfy the needs identified</td>
<td>Service providers identified</td>
<td>CDO, DCO</td>
<td>Profiles of service providers documented</td>
</tr>
<tr>
<td>3</td>
<td>Sensitising HE groups of the need to start their own SACCOs, where none are in existence</td>
<td>HEs become aware of the need for a SACCO</td>
<td>CDO</td>
<td>No of awareness seminars held</td>
</tr>
<tr>
<td>4</td>
<td>Facilitating individual HE groups to start and register their own SACCOs, where none are in existence</td>
<td>SACCOs formed where none are existing</td>
<td>CDO, DCO</td>
<td>No of SACCOs started when none existed</td>
</tr>
</tbody>
</table>
Organising regular training for SACCO members, covering role, rights and responsibilities of SACCO members | Awareness of the role, rights & responsibilities of SACCO members increased | CDO, DCO | (a)No of awareness seminars held (b) No of members attending

**Issue 4: Access to proper worksites and infrastructure**

**Recommendation to be tested**
(a) Assess MTTI Luwafu as well as UGT Njeru and Mbarara industrial park projects to establish what works for HEs
(b) Adapt MTTI Luwafu and UGT Njeru models to the Sub-county/ Rural Growth Centre level

<table>
<thead>
<tr>
<th>Pilot Activities</th>
<th>Expected outcome</th>
<th>Resp Centre</th>
<th>Performance Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Assessing MTTI Luwafu and UGT Njeru industrial park projects to establish what works and what does not work for HEs</td>
<td>Lessons from MTTI Luwafu &amp; UGT Njeru documented</td>
<td>NCC</td>
</tr>
<tr>
<td>2</td>
<td>Identifying &amp; inviting competent service providers to carry out capacity building needs assessments among HE groups</td>
<td>HEs’ capacity building needs documented</td>
<td>CDO, DCO</td>
</tr>
<tr>
<td>3</td>
<td>Inviting competent service providers to provide capacity building services to satisfy the needs identified</td>
<td>HEs receiving relevant capacity building services</td>
<td>CDO</td>
</tr>
<tr>
<td>4</td>
<td>Inviting competent service providers to provide advice to individual HEs regarding technology needs including upgrades and or outright acquisition of appropriate technology</td>
<td>HEs receiving technical advice regarding access to appropriate technology</td>
<td>CDO</td>
</tr>
<tr>
<td>5</td>
<td>Sensitising HE groups to raise funds to finance acquisition of land in their commercial centres upon which to develop proper worksites including necessary common facilities.</td>
<td>HE groups sensitised regarding access to proper worksites</td>
<td>CDO</td>
</tr>
<tr>
<td>6</td>
<td>Collecting &amp; disseminating trade/business information to HEs on a regular basis</td>
<td>HEs access trade &amp; business info regularly</td>
<td>CDO</td>
</tr>
<tr>
<td>7</td>
<td>Organising local trade fairs and market days for the benefit of HEs</td>
<td>(a)HEs access wider market (b) HEs’ turnover increased</td>
<td>CDO, DCO</td>
</tr>
</tbody>
</table>
### Issue 5: Taxation and licensing practices

**Recommendation to be tested**

Design and introduce taxation and licensing arrangements that promote growth and productivity of HEs without compromising the sources of tax revenue for local government as well as urban authorities.

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<tr>
<td>1 Unifying taxes payable by HEs to make unnecessary the incidence of arbitrary taxation</td>
<td>Arbitrary taxation ended</td>
<td>NCC, MoLG, MoFPED</td>
<td>Cases of arbitrary taxation reported</td>
</tr>
<tr>
<td>2 Reviewing enforcement methods to make it illegal for enforcement officials to destroy HEs’ property and livelihoods</td>
<td>Destruction of HE property ended</td>
<td>NCC, MoLG, MoFPED</td>
<td>Cases of HEs’ property destroyed</td>
</tr>
<tr>
<td>3 Standardising and publicising a ceiling for maximum taxes payable by HEs to local and urban authorities</td>
<td>Taxation of HEs streamlined</td>
<td>NCC, MoLG, MoFPED</td>
<td>Publication of standardized taxes</td>
</tr>
<tr>
<td>4 Simplifying and decentralizing to the sub-county level, registration and licensing of HE businesses</td>
<td>HE business Registered &amp; licensed at the sub-county</td>
<td>NCC, MoLG, MoFPED</td>
<td>Publication of the change in the Uganda Gazette</td>
</tr>
<tr>
<td>5 Designing and conducting on a regular basis, taxation awareness seminars for HEs</td>
<td>HEs aware of their obligation to pay tax</td>
<td>CDO</td>
<td>No of seminars, No of HEs attending</td>
</tr>
<tr>
<td>6 Designing and implementing an anti-corruption program</td>
<td>Cases of taxation related corruption minimised</td>
<td>DEI, OP(Office of the President)</td>
<td>Taxation related corruption report</td>
</tr>
</tbody>
</table>