



SMEs-Policy makers' dialogue on the challenges of Agro-based SMEs in Uganda: Experiences from Gulu District



Date: Monday, 10th September 2018

Venue: Churchill Courts Hotel, Gulu, Uganda

Report on the consultative meeting

Background to the meeting

On 10th September 2018, SEATINI-Uganda in partnership with Uganda Small Scale Industries Association (USSIA) organized a sub-regional consultative meeting for agro based SMEs and policy makers to discuss the challenges faced by Agro-based SMEs in Gulu district. The objectives of the meeting were: to raise awareness on the existing government efforts and opportunities for SMEs' growth and competitiveness; to facilitate dialogue between Agro-based SMEs and Policy makers/ government officials on specific policy and operational challenges; and to garner SMEs' proposals around proposed policy reforms including the ongoing trade sector review process. The meeting was attended by 43 participants inclusive of representatives from Ministry of Trade (SMEs Directorate), District Commercial Officers (DCOs), Uganda National Bureau of Standards (UNBS), Ministry of Finance, Association of Microfinance Institutions (AMFI), Agro-processors and farmers.

Welcome Remarks by Ms. Lumonya Faith, Program Officer Trade and Investment, SEATINI-Uganda

While thanking participants for having turned up in large numbers, Ms. Lumonya stressed the importance that SEATINI attached in working with USSIA to convene Agro-based SMEs with gov't officials so as to dialogue on their challenges, link them to the related policies and frameworks and forge a way forward on how to ensure that the related policies and frameworks address these challenges. The meeting will also enable Agro-based SMEs to understand the opportunities in different government Ministries, Departments and Agencies and how SMEs can use of them in addressing their respective challenges. Ms. Lumonya stressed the long standing relationship between SEATINI-Uganda and Agro-based SMEs as viewed from the work on upgrading Sesame/Simsim standards by creating a SESAME standard which was approved by UNBS and WTO. While wishing participants fruitful deliberations, she encouraged participants to bring to table anything that impedes their access to Finance and Markets.

Official opening remarks by Mr. Oketta Kenneth-District Commercial Officer (DCO)-Gulu District



Figure 1. Mr. Oketta giving opening remarks

Mr. Oketta thanked SEATINI and USSIA for the mobilization and coordination to undertake Sub-regional consultative meetings with Agro-based SMEs in Gulu District. In his remarks, he raised the following key issues:

✚ The now Developed countries like Singapore, South Korea, Taiwan among others developed through starting small i.e. through SMEs. This was majorly through Agro-based SMEs. Therefore, in an agrarian economy like Uganda, Industrialization is linked with SMEs and Agro-processing.

✚ SMEs account for approximately 90% of Uganda's private sector, employ more than

2.5 million people, generate over 80% of the country's manufactured output and contribute 18% to the country's GDP. Agro-based SMEs in Uganda make up 80% of Agro-processing, employ over 2.5 million people and contribute above 20% of the country's GDP. They also provide a market for agricultural products and allied goods and services to agricultural value chain actors.

- ✚ The commercial department of Gulu district is working hard to support Agro-based SMEs in value addition and linking them to vital bodies like UNBS to provide certification of their product quality for competitiveness in both national and regional markets.

Facilitated discussion: National and regional level Market access challenges by SMEs

This session was facilitated by Mr. Kasozi Frederick, a Senior Commercial Officer at the Ministry of Trade, Industry and Cooperatives (MTIC). It involved interacting with Agro-based SMEs on their market access related challenges. The following key challenges were raised by the SMEs in Agro-processing and value addition for markets.

- ✚ **Packaging challenges:** it is difficult for SMEs in Gulu district to access the appropriate packaging materials given the fact that the materials are imported and at a high taxes. Lack of right packaging materials also affect the quality of the processed products which sometimes leads to rejection and less competitiveness of these products both at national and regional markets.

- ✚ **Costly Agro-processing machines:** Access to affordable agro-processing machines is expensive which makes the cost of production expensive. As a result, some SMEs have resorted to use of machines that are not food grade which makes the final product inferior at the market. This has been exacerbated by limited research in fabrication of tailor made Agro-processing machines which are affordable and easy to operate by Agro-based SMEs.



Figure 2. Mr. Kasozi Frederick facilitating the session

- ✚ **High cost of electricity and connection to the grid:** High power tariffs and high costs of connection to the grid continue to hamper SMEs growth, production and competitiveness both at national and regional market. SMEs in Uganda Pay

shs 383 per unit which is higher if compared to other EAC Partner States like Kenya. Because of power fluctuations/outages, SMEs often have to dismantle their machines every time outages occur which is tiresome and leads to losses in production. Due to these power related challenges, some SMEs in Gulu, have had to shut down due to lack of affordable and stable electricity.

- ✚ **Challenges with quality management and post-harvest handling to reduce losses.** Taking the case of oil seeds, Agro-based SMEs are faced with challenges of post-extraction quality management. With the high quality of power tariffs, if post-harvest quality is addressed, it is difficult to maintain safe and prescribed storage requirements in post-extraction quality management due to poor storage facilities. For example, processed Shea Butter is not supposed to be stored at more than 20° Celsius which is difficult for many SMEs due to high cost of power and stability challenges. This has often resulted to compromising of the quality of the product to inferior to other related products at national and regional market.
- ✚ **Product quality certification challenges:** The UNBS had issued requirements for all products to be allocated with a quality mark if they are to be allowed on national and regional markets. Whereas this is a good move in ensuring consumer's safety assurance and enhancing product competitiveness, the process of getting standards from UNBS is long and expensive. This is why product like Shea Butter have to date not been able to acquire a standard which has limited entry of the final product to regional markets which are so keen on standards, certification and quality mark.
- ✚ **Competition from cheap imports on the local market:** Uganda's market is flooded by cheap agro-processed imports like juices, honey, chili, tomato paste, grain flour, vegetable oil, including raw products themselves like fruits, cereals among others. These have outcompeted local products due to being sold cheaply below market prices.

Facilitated discussion: Challenges of access to finance, the tax system and SMEs' competitiveness

This session was facilitated by Mr. Abemigisha Gardson, a Senior Economist with the Ministry of Finance, Planning and Economic Development (MoFPED). The following were raised as challenges of access to finance, the tax system and SMEs' competitiveness:

- ✚ **Access to soft loans for Agro-processing SMEs:** Government has put in place numerous measures to provide finance to entrepreneurs in Uganda. These include among others capitalization of the Uganda Development Corporation (UDC), establishing an Agriculture financing facility desk at Ministry of Finance, the Uganda Development Bank, Association of Microfinance Institutions, Operation wealth Creation, Youth Livelihood Scheme program among others. However, in spite of these initiatives, access to finance by majority of startup Agro-based SMEs is a challenge, as these finances are only accessed by the already operational and fairly competitive SMEs.
- ✚ **High Taxes on packaging materials:** In order for an Agro-based SMEs product to be able to penetrate, gain acceptability and eventually compete in both local and regional markets, packaging and labeling are indispensable prerequisites. However, for Agro-processing SMEs in Gulu, the high Taxes on packaging materials currently at 30-35% import duty have made it difficult for SMEs to use the appropriate packaging materials. This has led to using packaging materials which make their products appear inferior and sub-standard in domestic and regional markets which has disadvantaged them in an attempt to penetrate and compete in the markets.
- ✚ **Taxation by Uganda Revenue Authority (URA) and formalization of SMEs businesses:** Whereas formalization of businesses is critical in up scaling production, productivity and access to finance by

SMEs, majority of SMEs in Gulu district are reluctant to formalize their businesses due to the high taxes imposed by the URA. URA taxes are imposed at a point when SMEs have just set up shop even before testing, penetrating and being competitive in Markets so as to recover the initial startup capital. They have therefore preferred to remain informal which has impeded on their ability to access government support which applies to only formally registered businesses.

Way forward: issues for follow up and action

The following issues were raised for action by both Agro-based SMEs and relevant Government Ministries which SEATINI-Uganda and USSIA will engage on for follow up.

- ✚ The Ministry of energy and UMEME should engage with SMEs in agro-processing in addressing power related challenges of high costs of connection to the grid, high power tariffs and power fluctuations. Furthermore, feasible means of other alternative energy sources should be sought by SMEs and financing made available to ease access of such alternative power sources.
- ✚ Quality should not be compromised if SMEs want to compete at national and regional markets. In order to achieve this, UNBS should expedite process of acquiring quality mark for consumer product safety and quality assurance. With the establishment of UNBS offices in Gulu district, SMEs should take advantage of the opportunities this presents regarding certification of their products.
- ✚ A directive on consumption of Ugandan Agro-processed products in public institutions should be instituted under the Buy Uganda Build Uganda (BUBU) implementation framework. In order to do this, the Public Procurement Act should be amended to offer first priority of supply of Agro-processed products to local SMEs. Private institutions like Supermarkets, Schools, Hotels among others should also be encouraged to promote purchase and consumption of locally produced Agricultural products.
- ✚ Government institutions like Uganda Development Corporation and Uganda Development Bank should design specific initiatives and projects aimed at supporting access to finance by Agro-based SMEs. Agricultural zoning is critical to support Government and SMEs efforts in boosting raw materials for Agro-processing and supporting strategic industrialization interventions by Government e.g. in establishing Agro-processing plants.
- ✚ Tax holidays should be granted to Agro-based SMEs so as to enhance their production, market entry and competitiveness. An analysis on the readiness of such SMEs to start paying taxes based on their annual turnover should always be carried out by URA before taxes are imposed.
- ✚ District Commercial Officers (DCOs) should be supported by MTIC to undertake their mandate of promoting trade through enterprise development, create market linkages to domestic, regional and international markets, improve of standards of products, and promoting consumption of locally produced goods.
- ✚ MTIC, MoFPED should work with commercial banks in putting in place special packages for financing Agro-based SMEs through low interest rate loans. Also, Taxes on packaging materials (currently at 30-35% import duty) should be reduced to promote access to proper packaging materials which will make it easy for agro-processing SMEs to be able to compete in both national and regional markets.

Learning by doing: Field Visits to key Agro-based SMEs.

SEATINI-Uganda and USSIA later took officials from the Ministry of Trade and Ministry of Finance to visit three Agro-processing firms i.e. Gulu Country Dairy (specializing in making Yoghurt), Global Trade Millers Ltd (Commercial farmers and oil millers) and Joso Investments LTD (manufacturers of purified drinking water). These visits helped officials appreciate better the challenges of the Agro-based SMEs. These SMEs were also provided with information linking them to potential financiers from both non-State and State entities.



Figure 3. Participants listening to Dr. Tonny Kidega, Manager/Founder of Gulu Country Dairy



