A CONTEXTUAL FINANCIAL ANALYSIS OF GREEN MICRO, SMALL AND MEDIUM ENTERPRISES/LOCAL GREEN ENTERPRISES IN UGANDA

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Contents

List of Figures

List of Tables

List of Acronyms and Abbreviations

aBi	Agriculture Business Initiative
BDS	Business Development Support
BoU	Bank of Uganda
CFA	Contextual Financial Analysis
CSOs	Civil Society Organisations
DFCU Bank	Development Finance Company of Uganda
GEM	Global Entrepreneurship Monitor
ICT	Information and Communication Strategy
IRA	Insurance Regulatory Authority
KCCA	Kampala Capital City Authority
LGEs	Local Green Enterprises
MDA	Ministries, Departments and Agencies
MFPED	Ministry of Finance, Planning and Economic Development
MSMEs	Micro, Small and Medium Enterprises
MTIC	Ministry of Trade, Industry and Cooperatives
NBI	National Data Transmission Backbone Infrastructure
NDP III	National Development Plan III
NFIS	National Financial Inclusion Strategy
PPP	Public Private Partnerships
PWDs	People With Disabilities
R&D	Research and Development
SACCOs	Savings and Credit Cooperative Organisations
SCP	Sustainable Consumption and Production
SDGs	Sustainable Development Goals
UBOS	Uganda Bureau of Statistics
UDB	Uganda Development Banks
UDC	Uganda Development Corporation
UEEI	Uganda Entrepreneurial Ecosystem Initiative

UGGDS	Uganda Green Growth Development Strategy
UMA	Uganda Manufacturers Association
UMSC	Uganda Microfinance Support Centre
URA	Uganda Revenue Authority
URSB	Uganda Registration Services Bureau
USSIA	Uganda Small Scale Industries Association

Executive Summary

The Micro, Small and Medium Enterprises (MSMEs) dominate Uganda's economy. They play a pivotal role in production and supply chains, value addition, technology transfer, development and innovation. MSMEs, underpin the country's competitiveness, employment, income and wealth creation and if greened and well harnessed, they have a big potential to facilitate transitioning to an inclusive transformative growth trajectory.

These contributions notwithstanding, MSMEs in Uganda are still grappling with a wide range of challenges that impede their growth and effective performance. This report therefore is an analysis of the contextual financial landscape including the macroeconomic environment, policy and regulatory landscapes of green MSMEs/Local Green Enterprises (LEGs) in Uganda under the overall framework of a socially inclusive transformative green economy.

The report contributes to a better understanding of the sustainable financial architecture and how it affects the activities and priorities of LGEs in Uganda. It is hoped that the report will guide informed discussions at local and national levels and feed into the development of sustainable finance policy instruments, laws, support systems and standards that improve investment climate for LGEs and consequently promote the greening of MSMEs.

Key Findings

The contextual financial analysis was undertaken through a wide literature review, stakeholder consultations, peer reviews and discussions and listening to the voices of key stakeholders. The analysis generated the following key findings:

Macroeconomic Environment

i. Uganda has enjoyed strong and stable macroeconomic environment which has provided enabling conditions for MSMEs to flourish.

ii. The growth and performance of green MSMEs/LGEs is constrained by both internal and external barriers such as market constraints and limited access to affordable finance.

iii. These barriers have dire consequences on competitiveness, employment creation, productivity, financial inclusion and growth of green MSMEs/LGEs.

iv. Strategic partnerships and engagements between LGEs and policy makers have been formed to facilitate the implementation of fiscal reforms and use of policy instruments such as tax exemptions for green enterprises and sustainable public procurement.

v. The domestic demand for green and social goods in Uganda is steadily growing especially in the growing middle and upper-middle income class that constitute 22% of the population (8.3 million).

vi. The big subsistence sector, the low levels of income and high levels of vulnerability are major impediments to the effective demand of green and social goods and services

Regulatory Landscape

i. Uganda has many policies, legal and institutional frameworks to regulate and guide the operations of green MSMEs/LGEs. However, there are issues of weak enforcement and inadequate incentives for their effective implementation.

ii. The regulatory landscape presents challenges of fragmentation, weak integration, scattered and disjointed efforts, duplication and incoherence making the coordination of green MSMEs/LGEs difficult.

iii. Vulnerability of MSMEs to risks and uncertainties which act as barriers to access to financial resources.

iv. Weak enforcement of contracts and insufficient incentives for the effective performance of green MSMEs/LGEs.

v. The regulatory initiatives for green MSMEs/LGEs are dominated by the public sector, with the private having a mind-set of receiving green funds from government and development partners.

vi. A number of specific public incentives to promote sustainable investments in the form of tax breaks are in place although more needs to be done.

vii. There is need for fiscal interventions which reduce taxes and transaction costs on inclusive financial services such as mobile money banking.

viii. In most of the policies and legal frameworks, there is no deliberate policy commitment or objective devoted to the greening of MSMEs/LGEs.

ix. The regulations and policies also lack clarity on incentives for local green enterprises and what other MSMEs lose out if they do not go green.

x. The persistence of informality (51% of GDP) and the notion of "illegality" many MSMEs are not registered nor licensed, only 800,000 businesses are registered including companies

xi. While attempts have been made to develop R&D services, their benefits are largely not felt by the MSMEs/LGES. Generally, there is lack of an adequate support system to nurture innovations to full commercialisation and affordable access to MSMEs/LGEs

Stakeholder Landscape

i. The stakeholders' landscape influencing or to be influenced include; MSMEs umbrella leadership organizations, financial (formal and informal) stakeholders, development partners and policy level stakeholders.

ii. The informal sector level stakeholders dominate the MSMEs especially in the rural areas and down town informal settlements make major contribution to employment and access to financial services. However, they face significant challenges associated with informality

iii. Development partners support green MSMEs/LGEs as demonstrated by the Switch Africa Green Project. However, there is a challenge of sustaining the partnerships and the programmes initiated after the closure of the projects.

iv. In terms of geographical scope, most of the stakeholders are based in urban areas in the central business district of major cities compounding the challenge of access to service delivery. This calls for the decentralisation of service delivery.

v. There are vulnerable groups of stakeholders e.g. refugees, women, youths and rural based ones that do not access financial services and are usually left out of the BDS.

vi. Partnerships and collaboration between state and non-state stakeholders e.g. the finance service providers and the BDS providers promote better planning, coordination and sequencing of interventions to MSMEs/LGEs.

Financial Landscape

i. The financial landscape is dominated by foreign commercial banks whose terms and conditions are not very favourable to green MSMEs/LGEs. While attempts have been made to capitalize UDB and UDC, they are not necessarily green and MSMEs cannot easily access their financial support.

ii. Government has borrowed heavily from the commercial banks which has kept interest rates high and in effect locked out or made it difficult for the private sector including green MSMEs/LGEs to obtain credit (crowding out the private sector).

iii. The effects of financial constraints are more felt by MSMEs established by vulnerable groups such as; the refugees, the women, the youth and people with disabilities (PWDs) as well as agriculture based enterprises whose businesses are perceived to be risky.

iv. MSMEs are struggling to get affordable business loans against rising commercial bank interest rates averaging 18%-23% as a result of this gap, there is a proliferation of predatory money lenders exploiting the existing weak financial regulatory frameworks and the growing unmet financial demands.

v. New innovative green financial products and services that have enhanced easy access of green MSMEs to affordable finance have come up. However, they are currently limited to a few mainly the urban dwellers.

vi. While green MSMEs/LGEs face inadequacy of access to affordable finance, there are also cases of inadequate utilization or limited demand of green financial products partly due to information gaps and high set minimum thresholds.

Lessons Learnt

i. Increasing access and affordability of credit to LGEs, requires multi-interventions including reducing risks and uncertainties of lending, more exposure and access to Business Development Services.

ii. Strategic partnerships and engagements between LGEs and policy makers are necessary to facilitate the effective implementation of green economic instruments.

iii. LGEs umbrella bodies increase their bargaining power among regulators and policy makers in addition to lobbying for financial resources. Therefore, LGEs should not only register with them, but also proactively participate in influencing positions of these bodies to ensure that the green aspects are well captured and prioritised. However, there are barriers to MSMEs in becoming members of these umbrella organisations.

iv. Innovations such as digital financing, internet banking, agent banking and Islamic banking (yet to be operationalized) have a big potential for opening up more opportunities for financial inclusion to LGEs. They are opening up and are becoming more popular to MSMEs.

v. Informal financial actors such as money lenders much as they are not registered and often charge exorbitant interest rates, they cover a gap left by formal financial institutions whose services do not reach the majority of potential consumers.

vi. While there are many policy and regulatory frameworks, they do not adequately address the specific and often unique challenges facing MSMEs and in particular LGEs. The incentive frameworks are more inclined to big enterprises and do not sufficiently support LGEs especially the micro and small ones.

vii. For green MSMEs/LGEs to access affordable finance, they need both demand and supply based interventions.

viii. Addressing the issues affecting the financial landscape of MSMEs requires identifying the key actors and working closely with them.

ix. Inspite of their apparent weaknesses, informal networks are critical for the survival and sustenance of LGEs/MSMEs e.g. through these networks, they get unsecured loans or credit facilities (usually at exorbitant rates), capacity building, nurturing and mentoring in entrepreneurial and technical skills.

Recommendations

i. Put in place risk sharing schemes between government, development partners and lending institutions (commercial banks) such as credit guarantees, insurance schemes e.g. agricultural insurance to lower risks, reduce lending rates and increase access to credit by green MSMEs/LGEs.

ii. Develop diversified innovative financial products and services to enhance access, financial affordability and inclusiveness to green MSMEs/LGEs.

iii. Capitalize key institutions such as the Uganda Development Bank, the Uganda Microfinance Support Centre and the Uganda Development Corporation to facilitate access to affordable finance by green MSMEs/LGEs.

iv. Targeted use of economic instruments such as tax exemptions for green enterprises and sustainable public procurement can only materialize through strategic partnerships and engagements between LGEs and policy makers.

v. Green MSMEs/LGEs should not only register with umbrella bodies e.g. USSIA, IRA and UMA but also proactively participate in influencing positions of these bodies to ensure that the green aspects are well captured and prioritised.

vi. Whereas financial barriers are rated top in constraining the activities of LGEs, this is not to imply that other barriers are not important. Therefore, unlocking the potential of LGEs to effectively contribute to the transition to a green economy requires a multi-pronged approach involving finding appropriate interventions to address all the identified issues/barriers.

vii. Provide BDS support to MSMEs/LGEs as a pre-requisite for the access and effective utilisation of finance, human and materials resources.

Overall, there is good political will for sustainable finance to LGEs although more needs to be done in terms of creating a favourable policy environment as well as the actual enforcement of their implementation. In addition, market, policy and institutional failures need to be addressed in order to develop the financial sector to serve the interests of green MSMEs/ LGEs. Among other interventions, this calls for the increased role of government and creating new and strengthening of existing partnerships.

Score of key signature issues affecting the performance of LGEs by order of priority importance are presented in the table below.

No	SIGNATURE ISSUES	SCORE (Least (1) & (5) most important)
1.	Financial barriers and inaccessibility to affordable finance due to; informality of LGEs, high cost of credit, high collateral requirements, high vulnerability to risks and uncertainties, financial illiteracy, low access to financial information and new innovative financial products, bureaucracy and high documentation requirements	5
2.	Market barriers arising from: limited access to timely market information, lack of certification, prohibitive standards requirements, inadequate transport infrastructure, inaccessibility to government procurements and contracts, proliferation of sub-standard goods and counterfeits, limited application of digital and network marketing techniques	4
3.	Limited internal capacity in green business and production processes e.g.; limited institutional coordination limiting LGEs from enjoying the benefits of circular economy, gaps in financial literacy, record keeping, basic accounting, entrepreneurship, technical and management skills, high costs of 'green' innovation and business models	3
4.	Limited government support. Lack of government support to the growth of LGEs. While there are many policy and regulatory frameworks, they do not adequately address the specific and often unique challenges facing MSMEs and in particular LGEs. The incentive frameworks are more inclined to big enterprises and do not sufficiently support LGEs.	3
5.	Sectoral barriers. LGEs are scattered across the various regions and sectors of the economy and are under different jurisdictions, policies, laws and regulatory frameworks. This complicates their coordination and harmonization to meet common challenges and harness existing or potential opportunities.	2
6.	Demand for green and social goods and services. Demand is rising fueled by growing urbanisation, increasing environmental awareness, growing middle-class, Corporate Social Responsibility, green procurements etc	3
7.	MSMEs/LGEs need some types of support e.g. Public support such as subsidies, Business Development Services (BDS), legal services to become greener and/or to flourish	5
8.	Uganda's policy and regulatory costs are high and do not present a favourable environment for the MSMEs/LGEs to flourish.	3
9.	Importance of 'informal employment' as a characteristic of the Ugandan economy	5
10.	National/regional economic development strategy supporting LGEs	4
11.	A big proportion of the population still remains financially excluded.	5
13.	Access to long term finance is very limited. The capital markets infrastructure is still underdeveloped while the innovation and supporting infrastructure is also weak.	5
14.	The financial ecosystem is faced with a mismatch between the demand and supply of financial products and services	5
15.	Capital and Financial markets are still weak and underdeveloped	5
16	Access to long term finance is very limited.	5
17.	The regulatory landscape presents challenges of fragmentation, weak integration, scattered efforts, duplication and lack of harmony making the coordination of MSMEs/LGEs difficult.	4
18.	Informality of several green MSMEs especially in the agriculture sector humpers their ability to benefit from formal support rendered by Government, development partners	4

1.0 Introduction

1.1 Background

The Uganda Bureau of Statistics (UBOS) classifies enterprises into various categories based on; number of employees, capital investment and annual sales turnover. One of such categories is that of Micro, Small and Medium Enterprises (MSMEs) which may be formal or informal and are distinguished according to; size of capital investment (usually a low asset base), the number of employees, turnover, management style, location and market share.

The Uganda Investment Authority (2020) brochure on MSMEs indicates that, in quantitative terms, micro enterprises are those businesses employing not more than 5 and have total assets not exceeding UGX 10million. On the other hand, small enterprises employ between 5 and 49 and have total assets between UGX 10 million but not exceeding 100 million. The medium enterprises employ between 50 and 100 with total assets more than UGX 100 million but not exceeding 360 million. In terms of their proportion in the industry sector, the third National Development Plan (NDPIII 2020/21-2024/25) indicates that Small and Medium Enterprises account for 93.5 percent of firms operating therein. NDP III further elaborates that the majority of MSMEs are engaged in end-product assembly and raw materials processing with focus on low value added goods such as food and beverages, wood and wood products, textiles, leather, and metallic and non-metallic fabrications.

The informal and formal MSMEs dominate Uganda's economic land scape. There are about 1.1 million MSMEs that account for 90 percent of the private sector, with 49 percent in the service sector, 33 percent in commerce and trade, 10 percent in manufacturing and 8 percent in others. They employ about 2.5 million people, produce 80 percent of Uganda's manufactured output and contribute 20 percent of the country's GDP (UBOS. 2020; MTIC 2019, NDP III 2020, Stanbic Bank 2020). MSMEs are the engine of Uganda's economic growth and are key drivers in fostering innovation, job creation and wealth creation and the socioeconomic transformation of the country as envisaged under the Uganda Vision 2040. Leveraging MSMEs for inclusive growth is consistent with the Sustainable Development Goals (SDGs), the Africa Agenda 2063 and the East African Vision 2050 to all of which the country is already committed. The provisions on MSMEs in these regional and international frameworks are being operationalized through the NDP III and the Uganda Green Growth Development Strategy (UGGDS).

1.2 Rationale for the Contextual Financial Analysis of Green MSMEs/ LGEs

Whereas Government of Uganda has identified MSMEs as central to achieving growth and reducing poverty, they are still facing major impediments to their growth, competitiveness and ability for innovation. The key constraints encountered are largely linked to their informality, inaccessibility to sustainable financing mechanisms and lack or weak policy, institutional, legal and regulatory frameworks. As a result of these encumbrances, MSMEs have a very short life span with 69 percent aged between 1-10 years old, while 50 percent of the new MSMEs last for less than 12 months and 80 percent do not make it to their third birth day. Yet, Uganda is ranked among the top most entrepreneurial countries in the world, with one out of every three persons being an entrepreneur (Global Entrepreneurship Monitor (GEM), 2015). Implying that Uganda's MSMEs face a significant challenge of sustainability, hence making a strong case for their greening a matter of top priority and urgent attention.

1.3 What are green MSMEs/LGEs?

Against this background, this report analyses the financial context of green MSMEs/LEGs in Uganda under the overall framework of a socially inclusive transformative green economy. LGEs consist of informal and formal MSMEs and social enterprises that are using green business models, developing green products or greening their business practices. They exhibit gender equity, social inclusiveness, cleaner production technologies, climate resilience and environmentally friendly businesses. In the Ugandan context, the list of green MSMEs includes enterprises dealing in renewable energy such as solar equipment, batteries, accessories, installations and repairs; waste treatment, management and recycling, provision of environmental and energy consulting services among others.

This report analyses green MSMEs/LGEs that deliberately undertake efforts to ensure that they oblige with green and sustainable production and consumption principles such as; resource use efficiency, sustainable waste management and resilient low carbon clean production processes. It highlights the context within which green MSMEs operate with a focus on stakeholders and financial landscapes and the state of their adequacy to either work for or against the smooth operation of green enterprises. The report also explores Uganda's macroeconomic environment, the policy and regulatory landscapes and how they impact on the performance of green MSMEs/LGEs.

The report which targets key policy and decision makers contributes to a better understanding of the sustainable financial architecture and how it affects the activities and priorities of LGEs in Uganda. It is hoped that it will guide informed discussions at local and national levels and feed into the development of sustainable finance policy instruments for the sustainability of LGEs. It is further hoped that the report will generate evidence and build supportive laws, systems and standards that contribute to improving investment climate for LGEs and consequently promote the greening of MSMEs.

1.4 Objectives of the Contextual Financial Analysis of Green MSMEs/ LGEs

Against this background, the report specifically seeks to:

i. map out the key stakeholders influencing or to be influenced;

ii. identify the key economic and financial issues critical to unlocking sustainable finance for green MSMEs/LGEs;

iii. review the economy including the macroeconomic environment and assess their implications to the sustainable financing of LGEs.

iv. review the current financial architecture and assess its implications to the sustainable financing of LGEs; and

v. propose policy recommendations

1.5 Methodology

The contextual financial analysis report of green MSMEs/LGEs in Uganda was undertaken through a wide literature review involving analyzing a range of relevant publications and documentation. Wide stakeholder consultations were carried out with key personnel in government Ministries, Departments and Agencies (MDAs), the Private sector, Civil Society Organisations (CSOs) and MSMEs Umbrella Associations which enabled listening to different voices and the capturing of key issues and messages. The preliminary drafts underwent a Peer review process with the key members on the core team of this study. Case studies of successful LGEs initiatives in the country were reviewed for lessons learnt and experiences gained that informed the policy recommendations. The study embraced both qualitative and quantitative analytical methods to generate the key findings and recommendations elaborated in this report.

2.0 Financing Green MSMEs/LGEs: Stakeholder Identification, Analysis and Mapping in Uganda

For purposes of this study, stakeholders are all the parties who affect and influence the financing of green MSMEs/LGEs, as well as those parties who will be influenced by the financing of green MSMEs/LGEs. This section therefore uncovers the key stakeholders who are directly or indirectly linked to the financing of green MSMEs/LGEs. These are conveniently categorized into; Financial Stakeholders, Development Partners and Policy makers/regulators.

2.1 Financial Stakeholders

These include banks and microfinance institutions that provide credit and finance to LGEs. The 2019 Bank of Uganda Annual Supervision Report elaborates an overview of Uganda's financial sector as indicated in the Tables below:

Table 1: Categories and Numbers of Licensed Financial Institutions

No.	Categories of Financial Institution	Number Licensed by BoU as of 2019
1	Commercial Bank Branches	580
2	Foreign Exchange Bureaus	291
3	Microfinance Deposit Taking Institutions	97
4	Credit Institutions	210
5	Development Banks	2
6	Money Remitters	208

It should be noted however, that there are many non-licensed informal financial institutions and individuals operating in Uganda some as money lenders at various levels including community and village levels.

Table 2: Levels of Capitalization of Selected Banks Operating in Uganda

S/N	Name of Bank	Assets (USD)- 2020
1.	Stanbic Bank	USD1.765Bn
2.	DFCU Bank	USD 973.25M
3.	Standard Chartered Bank	USD 840M
4.	Equity Bank Uganda	USD 263M
5.	Citi Bank Uganda	USD 262M
6.	Housing Finance Bank	USD 251M
7.	ABSA Bank	USD 77.61
8.	Centenary Bank	USD 42.9M
9.	Bank of Baroda	USD 42.54M

S/N	Name of Bank	Assets (USD)- 2020
10.	Uganda Development Bank LTD	USD 132.5M
11.	East African Development Bank	USD 390M

Source: Bank of Uganda Annual Supervision Report, 2019

Only three of the eleven banks listed above i.e. the Housing Finance Bank, the Uganda Development and the Centenary Bank are locally owned, even then, they exhibit a lower level of capitalisation. The rest of the banks are foreign owned, indicating a high level of dependence on foreign capital to drive Uganda's green financing agenda. In addition, the foreign commercial banks are more inclined to supporting medium and large enterprises leaving out the micro and small enterprises especially the informal and rural based ones to depend on informal sources of funding.

Albeit still inadequate, a number of innovative banks have come up with catalytic green products to extend credit to LGEs for scaling up their activities. Key among these, is the Uganda Development Bank that is building its green finance products portfolio including seeking accreditation by the Green Climate. In its reporting, the Uganda Development Bank barely elaborates on the portfolio of its disbursement that went to local green enterprises although it emphasizes that all of its disbursement are assessed to ensure that they propel rather than work against the green economy transition. During an interview with the responsible desk for green finance, it was noted that *"there is still limited demand for the green finance products"* available although, the green entrepreneurs also express scarcity of affordable credit to scale up their activities. Similar views were expressed by Mr. John Walugembe, the Executive Director Federation of Small and Medium Enterprises:

> *"The money in Uganda Development Bank that was allocated to support MSMEs is not helping because it was meant for the real economy, manufacturing and human capital development. The MSMEs can't borrow below UGX 100 Million, at least have 3-4 years of audited accounts, present detailed feasibility study, have collateral".*

The Uganda Development Bank (UDB) one of the leading government owned institutions that extends financial support to legible businesses has elaborate terms and conditions for accessing financing. It requires a business plan and all other relevant documents that lay out the feasibility and viability of the business for which financing is being sought. For instance, the business must demonstrate expected development impacts such as job creation, tax revenue generation and import substitution. It must demonstrate its contribution to the business venture in the form of equity, of between 10%-60%. This means that UDB will only lend up to a certain percentage of the money needed for a project and requires that the business owner contributes 10%-60% to cover the balance. In addition, the business must have collateral and must show a minimum lending requirement of UGX 100million.

Similar concerns as those of the Executive Director of the Federation of Small and Medium Enterprises were expressed by the top management of UDB. According to Patricia Ojangole, the UDB Managing Director,

> *"50% of Ugandan business, including MSMEs, fail to access funding from UDB, the main reason being failure to meet lending requirements, chief among them being the provision of collateral security."*

These stakeholder voices indicate information gaps between demand and supply of green finance and difficult terms and conditions for green MSMEs/ LGEs to meet. The minimum thresholds for some financiers start from USD 500,000 which is out of reach of most micro and small LGEs. The stringent conditions and high costs of accessing finances, limit the competitiveness and marketability and of green and social goods and services. This among others calls for government support to LGEs to access markets.

2.2 Development Partners

Development Partners engage in bilateral and multilateral partnerships and also pool resources to support LGEs. One of these ventures is the Switch Africa Green Programme being funded by a consortium of Development Partners including the European Union which contributed €19.5M in partnership with the United Nations Environment Programme.[1] The Switch Africa Green programme's goal is to promote sustainable development and poverty reduction in Africa through Sustainable Consumption and Production (SCP) practices.

During the first phase of the programme which ran from 2014 to February 2019, grants were awarded to successful grantee applicants to support MSMEs in the uptake of Sustainable Consumption and Production (SCP) practices. Specifically, the programme supported LGEs in the manufacturing sector. The recipients included: Uganda Small Scale Industries Association (USSIA) which implemented projects on promoting sustainable product innovation and energy efficiency practices among small scale industries in Arua, Fort Portal, Hoima, Gulu, Kampala and Masaka; the Ministry of Trade, Industry and Cooperatives (MTIC) received a grant to support local MSMEs in demand-side management of energy use; the Directorate of Water Resources Management which also supported LGEs in demand side management of energy and water use efficiency, the promotion of Eco-Entrepreneurship, enhancing resource productivity and environmental performance of MSMEs through the concept of industrial symbiosis.

No doubt, development partners make a lot of contribution to LGEs development process, as demonstrated by the Switch Africa Green Project. However, there is a challenge of sustaining the partnerships and the programmes initiated

1 See, https://www.ug.undp.org/content/uganda/en/home/operations/projects/SustainableInclusiveEconomicDevelopmentProgramme/SWITCHAfricaGreenPromotinginclusiveandsustainableeconomicdevelopment.html

as sometimes the projects end before building the necessary capacity and momentum to sustain them.

2.3 Policy Level Stakeholders Influencing or to be Influenced

For LGEs to thrive, there is need for an enabling policy environment which can only be provided by Government Ministries, Departments and Agencies. Key among these include the Ministry of Trade, Industry and Cooperatives (MTIC), Ministry of Finance, Planning and Economic Development (MFPED), Uganda Development Corporation (UDC), Uganda Development Bank (UDB), National Planning Authority (NPA), Bank of Uganda (BoU), and Uganda Revenue Authority (URA). Fiscal reforms and implementation of policy instruments such as tax exemptions for green enterprises and sustainable public procurement can only materialize through building strategic partnerships and engagements between LGEs and policy makers. A case in point is the tax exemption on solar panels that was passed in the national budget for FY 2016. This eased the cost of solar equipment and also triggered local demand for the same especially in rural areas where several households are incapable of affording the general electricity tariffs or are not connected to the national grid. Whilst some of these policy makers may not have the highest interest in LGEs, they have immense influence and as such, LGEs under their leadership bodies ought to identify ways of fostering strategic partnerships with them for effective operation and growth.

Equally important stakeholders, are the umbrella organizations/bodies of MSMEs in the country where the LGEs also fall. These include the Uganda Hotel Owners' Association, Uganda Manufacturers' Association, Uganda Tourism Operators' Association and the Uganda Small Scale Industries Association among others. LGEs should not only register with these umbrella bodies but also proactively participate in influencing positions of these bodies to ensure that the green aspects are well captured and prioritised. These umbrella organisations increase the bargaining power of their members among regulators and policy makers in addition to lobbying for financial resources. A case in point is the Switch Africa Green Programme which financed SCP practices through a formal engagement with USSIA.

Umbrella bodies provide a platform where local enterprises can develop a more ambitious proposal comprised of several small LGEs to enhance their bargaining power in winning public procurements and accessing finance that would be out of reach if competed for individually. Indeed, according to NDP III, local firms are only awarded 30% of the public contracts and sub-contracts due to the high competition from foreign well established enterprises. In an interview with the Executive Director of the Federation of Small and Medium Enterprises Mr. John Walugembe indicated that:

> *"there are opportunities for MSMEs to take advantage of in public procurements, close to 60 percent of the government budget goes to*

public procurement. Government should build capacity of MSMEs so that they participate in public procurements".

While umbrella organisations improve the bargaining power of LGEs, the membership fees and other costs including the required minimum standards to join them are prohibitive, especially to the micro and small enterprises. These umbrella bodies are not inclusive as they tend to leave out the informal and rural based green enterprises many of which are not registered nor licensed. The micro and small enterprises therefore require support and nurturing to be proud full members of these umbrella organisations.

Another important stakeholder is the Uganda Microfinance Regulatory Authority (UMRA) which was created under the Tier 4 Microfinance Institutions and Money Lenders Act, 2016 that commenced in July 2017. This institution was created in the spirit of restoring investor and consumer confidence in Uganda's microfinance industry following a damage trail triggered by unscrupulous and unethical money lenders and Savings and Credit Cooperative Societies (SACCOs). The Authority is therefore following up on streamlining money lending business coupled with fostering good practices that stimulate savings through different channels such as SACCOs. Since most green MSMEs/LGEs cannot afford to borrow from bigger financial institutions such as Commercial Banks and Development Banks due to higher interest rates coupled with colossal minimum borrowing thresholds that are beyond the capital needs of MSMEs, the Microfinance Support Institutions come in handy to provide appropriate finance for innovative green start-ups.

It is important to note that in terms of geographical scope, most of the financial and policy level stakeholders to are based in urban areas or the central business district of cities. For instance, UDB is based in Kampala city without any branches across the country and this is the same with the MFPED, UDC and NPA. Other stakeholders such as Uganda Registration Service Bureau (URSB), Uganda Revenue Authority (URA), Banks of Uganda (BoU) and the Microfinance Support Organization have regional branches across the country which eases access to service delivery by the LGEs.

2.4 Financial Products or Services Offered by Financial Stakeholders to Green MSMEs/LGEs?

The various stakeholders offer different financial products in line with their mandates and priority areas of interest. For instance, financiers like Uganda Development Bank Limited offer financial products to support LGEs. However, for LGEs to qualify, they must be incorporated entities, cooperatives or targeted farmer groups. According to its 2019 Annual Report, Uganda Development Bank Limited offered seven products to its clients of which LGEs are part. It is important to note that these products only apply to projects and initiatives that fall within the Bank's priority areas which are; agriculture, tourism and hospitality, industry, human capital development and infrastructure. However, some of their products are neither appropriate nor attractive to LGEs.

Other stakeholders include policy makers and umbrella leadership organizations such as Uganda Manufacturing Association, Private Sector Foundation Uganda, USSIA and the Uganda Tourism Association among others provide products that entail; enabling policies, regulations and platforms for enhanced bargaining power of LGEs to access financial resources and appropriate policies that spur growth and expansion.

2.5 State of Regulation of Sustainable Finance

With regards to existing regulations, strategies or initiatives aimed at improving access to finance by LGEs, there are ongoing efforts although still in their infancy. For instance, the UDB is developing a Green Financing Strategy to ease access to green finance by LGEs. At the same time, the NPA and the MFPED are preparing a Green Growth Financing Strategy which is envisaged to provide a roadmap for financing Uganda's green economy transition. However, all of these initiatives are being led by Government with the Private Sector fixated in a mind-set of receiving green finance from government and development partners rather than contributing to the actual generation of green finance.

Also UDB is taking leadership in developing innovative financial products that promote environmental sustainability. Under its Equity product portfolio, the Bank has prioritized projects that are either ongoing or start-ups with preference given to innovative concepts deemed too risky for conventional financing but with strong prospects of profitability and immense potential socioeconomic impact. These developments notwithstanding, there are gaps with regards to existence of a green, eco or Environmental, Social and Governance (ESG) label for financial products. This can be attributed to the absence of a framework to guide this development. Fortunately, the Ministry of Water and Environment has commenced a process of developing an ESG framework to guide ESG Labels for financial products.

A number of specific public incentives to promote sustainable investments in the form of tax breaks/exemptions are in place although more needs to be done. The Uganda Investment Authority's guide on tax incentives and exemptions highlights imported items that are exempted from duties and taxes. Some of these items include; compact fluorescent tubes and specialized solar equipment and accessories, electrical energy saving bulbs for lighting and specialized solar and wind energy equipment. Evidently, there is political will for sustainable finance although more needs to be done in terms of favourable policy environment and enforcement of actual implementation.

2.6 Digital Finance and Financial Inclusion

To enhance financial inclusion, the Bank of Uganda developed a National Financial Inclusion Strategy (NFIS 2017-2022) with five pillars namely:

i. Reduce financial exclusion and barriers to access finance;

ii. Develop the credit infrastructure;
iii. Build the Digital Infrastructure;
iv. Deepen and broaden formal savings, investment and insurance usage; and
v. Protect and empower individuals with enhanced financial capability.

Whilst this strategy is commendable, more needs to be done in terms of capacity building in the requisite skills, user-friendly (popular versions) guidelines and regulations on financial inclusion. In addition, there is need for fiscal interventions which reduce taxes and transaction costs on inclusive financial services such as mobile money banking.

One of the emerging developments in deepening financial inclusion is digital finance. In view of its importance, Bank of Uganda has produced guidelines to govern this emerging development. In 2013, Bank of Uganda produced the *Mobile Money Banking Guidelines* to regulate the operation of this service. As a result, Uganda's Financial technology (Fintech) industry has grown in leaps and bounds. Fintechs have integrated and aggregated with telecommunication companies and banks to offer seamless services to green MSMEs/LGEs. Several Fintech firms use technology to enhance financial processes such as facilitating mobile payments, provision of micro loans, bill payments and money transfers among others which have enhanced efficiency and financial inclusion.

Other important financial innovations by the Bank of Uganda include the amendment of the Financial Institutions Act to allow for agent and Islamic banking whose regulations were also developed. Agent Banking which was launched in 2018, is working on a shared platform under which all banks can transact through a single agent. In 2020, the platform was transacting an average of UGX 2.2 trillion per month and had accumulated more than 12,154 agents.[2] While agent banking is being implemented and has indeed increased financial inclusion of LGEs, Islamic banking is yet to take off. There are still outstanding capacity challenges with effective management for the smooth operation of Islamic Banking in the country.

Agent banking, Internet banking and Mobile money are major innovations and indeed revolutions in the financial sector and are likely to deliver Uganda a cashless economy that will benefit the LGEs. Nonetheless, there is still room for improvement especially regarding the protection of consumers. Currently, the mobile money system does not provide for reversal of transactions by the consumer unless he or she calls the telecom company. This implies that any errors made when typing the recipient's number may result into loss of money once the transaction goes to the wrong number. There are also issues with digital financial literacy and capacity for the majority of the potential consumers much as use of digital financial services is widespread including reaching the rural areas.

2 https://www.monitor.co.ug/uganda/business/finance/agent-banking-transactions

3.0 The Financial Landscape of Green MSMEs/LGEs in Uganda

This section dissects the financial landscape for Green MSMEs and discusses how existing policies, legal frameworks and regulations impact the financial performance of LGEs. On one hand, the current financial landscape of green MSMEs/LGEs is comprised of; Insurance companies, SACCOs, Commercial Banks, Development banks, Financial leaning CSOs e.g. aBi Trust, Ecotrust, Climate finance and Capital markets among others. On the other hand, there are also informal financial markets comprised of unregistered money lenders who are reputed for charging relatively high interest rates. These financiers provide an array of services and products to the green MSMEs/LGEs as enumerated below:

i. Digital entrepreneurship (including innovative financial services and opportunities e.g. mobile money) to MSMEs/LGEs;

ii. Insurance services to ensure long term survival and sustainability of green MSMEs/LGEs;

3.1 The Financial Policy and Regulatory Landscape through the Green MSMEs Context

In this section, the Financial policy and Regulatory landscape has been elaborated through policies and legal instruments that govern the operations of LGEs and how the provisions stipulated thereof implicate their performance. The following policy, legal instruments and strategies govern the financial landscape of green MSMEs.

Amended in 2016, *the Financial Institutions Act* provides a legal framework for operation of financial institutions which are pivotal in the financing of LGEs. The Financial Institutions Regulations (2017) were issued by the Bank of Uganda to guide the implementation of this amended Act. One of the novel amendments included in 2016 was Agent Banking whose goal is to improve access to formal banking services thereby enhancing financial inclusion especially of MSMEs of which LGEs are part. The Bank of Uganda has since issued licenses to several Commercial Banks to embrace Agent Banking. The innovative Agent Banking has improved access to formal banking services by both LGEs and their clients.

The Insurance Act (2017) which provides for bank assurance thus legitimizing commercial banks to be licensed for provision of insurance services on behalf of insurance firms. These were issued by the Insurance Regulatory Authority. Insurance especially agriculture insurance is one of the key climate change adaptation strategies. This Act therefore provides a platform for Local Green Enterprises to access insurance products to catalyse the realization of their goals.

Public Private Partnership Policy provides a framework for guiding any public private partnership arrangements to deliver common results between the two parties. This Policy can be harnessed to propel LGEs in several ways including:

i. Distribution of investment risk between Government and LGEs which reduces investment risks;

ii. Prescribes clear and detailed descriptions of the rights and obligations of the contracting authority and private party which clarifies on any grey areas that may undermine operations of the private entity or any systemic risk that may threaten the return on investment;

iii. Provides clarity on the insurance policy of investments which reduces investment risk;

iv. Provides for the protection of the environment which is one of the hall marks of Green Enterprises; and

v. Requires clarity on the provisions for the protection of intellectual property rights which is an incentive for green innovations.

Additionally, this policy emphasizes the principle of participation of Ugandans as private parties in PPPs which gives a leeway to local green enterprises to work with Governments. It also highlights categories of projects that may be implemented under a Public Private partnership arrangement some of which align with Uganda's prioritized green growth investment areas. These include; waste management facilities, energy related facilities for generation, preservation, transmission and distribution of electricity, agriculture processing industries and tourist infrastructure facilities among others. Although PPPs have a big potential to promote the greening of MSMEs, they are more focused on the formal medium and large enterprises. The informal, micro and small enterprises that constitute the majority of MSMEs and require green partnerships more are not adequately targeted by the PPP policy.

The National MSME Policy, 2015 is another crucial framework that governs the operations of LGEs. The Vision of the policy is "A critical mass of viable, dynamic and competitive MSMEs, significantly contributing to socio-economic development. The objectives of the policy are:

i. Provision of an enabling environment through policy, legal and institutional coordination framework;

ii. Promotion of research, product/process development, innovation, value addition and appropriate technologies including ICT;

iii. Promotion of product and service standards for quality assurance;

iv. Promotion of access to markets and business information services;

v. Increasing access to credit and financial services; and

vi. Enhancing gender equity, inclusiveness and environmentally friendly business for sustainable development.

The strongest point of the policy in terms of supporting LGEs lies in one of its guiding principles which is environmentally friendly and cleaner consumption and production technologies. However, the Policy's timeframe was 2015 to 2020 and as such, it expired in 2020 and is therefore ripe for a review. This provides a window of opportunity to galvanize green principles into the policy during the review process.

Uganda Green Growth Development Strategy and its Implementation Roadmap (2017/18-2029/30). The Uganda Green Growth Development Strategy (UGGDS) is conceptualized around simultaneous achievement of economic and social progress and environmental sustainability. The LGEs have a central role to play in contributing to the realization of the key outcomes of the UGGDS such as generation of four million green jobs by 2040, enhanced resource use efficiency through pursuit of sustainable manufacturing, consumption and production processes, accelerated economic growth and increased contribution to the country's Gross Domestic Product. The strategy also highlights five priority areas that are deemed viable in terms of investments that will accelerate the country's transition to a green economy. These include; natural capital management, sustainable agriculture, sustainable energy mix, sustainable transport and planned urban development (green cities). It also sequences the respective interventions that point to green investment areas over its tenure 2017/18-2029/30. The UGGDS provides guidance on viable investment areas that have high returns for LGEs.

3.2 Existing Policy and Regulatory Gaps Facing Green MSMEs/ LGEs

i. The policies such as the MSMEs policy only captures environmental sustainability among the key principles governing the implementation of the policy. There is no deliberate policy commitment or objective devoted to the greening of MSMEs/LGEs. Besides, the environmental aspects emphasized in the guiding principles only address one facet of green growth leaving out others such as resource use efficiency.

ii. The regulations and policies also lack clarity on incentives for local green enterprises and what other MSMEs lose out if they do not go green. At the same time, they are also grey on enforcing any green regulations to hedge against unfair competition from those who continue to pursue brown practices which are deemed cheap due to the elimination of environmental costs in their total cost estimations.

iii. The policies are generic in their approach to MSMEs management. The policy provisions and regulations are tailored to the conventional MSMEs without a clear deliberate policy directive or objective devoted to LGEs. For instance, the PPP Policy does not provide clarity on what should entail a partnership arrangement between a Government Agency and a Private Entity regardless of whether it is a green enterprise or not.

iv. While the regulatory landscape is a big opportunity for green entrepreneurship, it presents challenges of fragmentation, weak integration, scattered efforts, duplication and lack of harmony making the coordination of MSMEs/LGEs difficult. In addition, the regulatory landscape has not reduced the risks, uncertainties and vulnerability of MSMEs which act as barriers to their growth and effective performance. For example, the regulatory landscape is not conducive to the enforcement of contracts and does not provide sufficient incentives for their effective performance.

v. Uganda's policy and regulatory costs are high and do not present a favourable environment for the MSMEs/LGEs to flourish. It is therefore important to reduce regulatory costs and risks such as costs and time taken to obtain business licenses and the complex compliance procedures that are felt more by green MSMEs/LGEs.

vi. While there is the UNBS Act, MSMEs still face the challenge of costly process for their product certification and standardization which affects market access. The regulatory framework has not reduced the informality of the MSMEs most of which are not registered nor have trading licenses. Business informality is costly to the government and to the public in terms of lost tax revenue and health and safety risk due to non-regulation and non-standardization.

3.3 Extent of Harmonization of the Policy and Regulatory Frameworks

The policy and regulatory frameworks are to a large extent harmonized in terms of improving the general investment climate but not necessarily harmonized in supporting LGEs. For instance, the vision of the MSMEs policy is to create *"A critical mass of viable, dynamic and competitive MSMEs, significantly contributing to the socio-economic development".* The PPP Act seeks to provide clarity on the roles of each party in PPP arrangement and also emphasizes the need to prioritize local private partners as opposed to external partners which gives LGEs a leeway to collaborate with the public sector in green investments. Relatedly, the Financial Institutions Act, 2004, was amended in the spirit of expanding the financial products provided by financial institutions to improve financial inclusion and access to banking services by all entities including MSMEs under which LGEs fall.

The multiple and often conflicting regulatory frameworks continue to affect the growth and performance of LGEs. For example, a report from cooperative experts contained in the New Vision of Monday 12th, April, 2021 indicated that the laws are confusing and complicated and are hindering the effective functioning of many cooperatives countrywide under which many LGEs fall.

3.4 Extent of Enforcement of Policy and Regulatory Frameworks

The policy and regulatory frameworks are implemented in terms of following up on the general provisions therein but not necessarily on the enforcement of green growth aspects. This partly emanates from the fact these frameworks capture green growth facets (they only mention environment and climate change) in a generic manner as a guiding principle for implementation without clear deliberate interventions on how this will be done. The lead institutions for these frameworks are more inclined to enforcing policy interventions that contribute to the realization of their direct mandates. Green growth concerns in the frameworks are deemed secondary since their management falls with other Government institutions and thus not accorded the requisite attention.

3.5 Impact of Enforcement of Existing Policies and Regulations on Green MSMEs/LGEs

3.5.1 Impact of Policies and Regulations on LGEs' Competitiveness and Innovations

The impacts are mixed with some policy and regulatory frameworks accelerating competitiveness and innovation, while others leave no implication since the scantly captured green growth interventions are also not followed up for enforcement. The PPP Act stipulates the need to protect intellectual property rights of the private sector something which stimulates innovation. It further provides for the principle of stimulating growth and development through harnessing private sector innovation and efficiency. In terms of ensuring competitiveness, the PPP Act is hinged on the principle of ensuring value for money, through optimal allocation of risks to private parties and maximization of the benefits to be obtained from expertise and financing by private parties. This implies that once LGEs leverage this platform of partnerships with Government, there is a benefit of shared investment risk and focus on value for money to ensure competitiveness. However, the absence of clear deliberate policy interventions that provide incentives for LGEs exposes them to unfair competition from mainstream MSMEs that use relatively cheaper production processes while not incorporating their environmental footprints into their cost functions.

3.5.2 Impact of Policies and Regulations on Financial Inclusiveness

The Financial Institutions (Amendment) Act, 2016 has fostered financial inclusion of MSMEs including LGEs. The Act was amended to introduce new products including Agent Banking and bancassurance among others with a goal of promoting financial inclusion and access to credit. The Bank of Uganda has since issued licenses to several commercial Banks to embrace Agent Banking. However, these frameworks notwithstanding, the Uganda Development Bank expressed low absorption of credit earmarked for green investments in contrast with demand for credit to invest in mainstream MSMEs. This could be a result of information asymmetry on existing green financial sources since LGEs express absence of credit sources. However, the thresholds and categorizations of financial products also impede financial inclusion of women and youth green entrepreneurs with Micro and Small LGEs. These enterprises at times need to merge to be able to access and fully utilize the available financial products offered by financing institutions.

3.6 The Impact of COVID-19 on the Financing of Green MSMEs/LGEs

The COVID-19 containment measures such as total lockdowns and observance of standard operating procedures have had dire consequences on all actors in the economy including the financing green MSMEs/LGEs. The United Nations Development Fund sampled 1,140 registered MSMEs companies drawn from the URA business registry to collate information on the implications of COVID-19 on MSMEs. These impacts are enumerated below:

i. It derailed the financing of LGEs since their cash flows dwindled thus direly affecting their credit worthiness. This is because MSMEs are fragile with a relatively low cash flow that cannot sustain operations for a long time. According to a study by the United Nations Capital Development Fund (2020) on the impact of COVID-19 on Ugandan MSMEs, only 15 percent of enterprises could sustain three months of operations on their inflow during the lockdown, 85 percent suffered financial distress after three months of the lockdown and about 50 percent of informal businesses fell out of business or below the poverty line just one month after the lockdown. Since one of the measures of credit worthiness are cash flows, this setback inevitably undermined access to new capital and financing of existing loans. The green MSMEs/LGEs will therefore require support in terms of low-cost credit to boost the recovery of their businesses and reduce the rising level of non-performing loans.

ii. The enforcement of Standard Operating Procedures such as total lockdowns resulted into a decrease in business revenues by MSMEs. The ban on public and private transport disrupted supply chains and exportation of goods to destination export markets. This resulted into massive losses to MSMEs as indicated by sudden decrease in prices especially of agriculture enterprises during the lockdown. The most affected MSMEs/LGEs are those in agriculture, education, tourism, health and social work, construction, trade, transport and storage.

3.7 Factors and Risks Impeding Green MSMEs from Accessing Credit from Commercial Banks

Several factors hamper Commercial Banks from lending to MSMEs and particularly LGEs and these are both external pertaining to the financial sector, and internal problems of MSMEs themselves. These include:

i. Lack of collateral and high transaction costs which are exacerbated by biased financial policy of some lenders which only favour big enterprises and internal challenges faced by MSMEs. Internal MSME factors hampering access to finance include lack of or inadequate business records and accountability on cash flows among others.

ii. The relatively small size of MSMEs also works against them in terms of credit worthiness. Usually when the company is smaller, the restrictions on credit access are also greater due to lack of auxiliary invisible supporting functions such as collateral networks and a history of successful payment of previous credit issued. In some cases, especially for LGEs, the firm is usually a sole proprietorship which is entirely managed by the Entrepreneur without any business plan or legal requirements for reporting of business information or undertaking audited accounting. This paucity of records later constrains credit worthiness to financiers.

iii. The high failure rate of MSMEs of which LGEs are, is another risk which inhibits commercial banks from lending to them. According to Enterprise Uganda and the Global Entrepreneurship Monitor, Uganda is ranked among the most enterprising countries in the world but also has the lowest survival rate of start-ups. This narrative works against the MSMEs in terms of access to finance because financial institutions take calculated risks to hedge against defaulting on loan payments.

iv. Lastly, ownership structures, financial literacy and business management skills determine the ability of access to finance. Other impediments include low levels of financial literacy which also undermine uptake of existing financial options and the investment risk thereof.

3.8 Linking Human Capital to the Financial Capital of MSMEs/LGEs

Human capital development plays a key role in enhancing access to financial capital by green MSMEs/LGEs. As noted earlier, many of the risks faced by commercial banks when lending to MSMEs e.g. financial illiteracy, skills gap, deficiency of skills in business planning, undertaking audited accounts, record keeping of business information and cash flows and management are human capital related. This implies that building the capacity of LGEs in developing clear business proposals, record keeping and management can go a long way in bolstering their profitability, viability and access to credit. As part of their corporate strategy, financial institutions have a key role to play in this by ensuring availability of information tailored to the needs of the MSMEs and also train MSMEs in basic literacy and financial management to address any apparent information gaps.

4.0 Analysis of the Economic Landscape and its Implications on Green MSMEs/LGEs in Uganda

This section reviews the general economic landscape including the macroeconomic environment, the current fiscal and monetary policies and how they affect the performance of green MSMEs/LGEs.

4.1 Macroeconomic Environment

Uganda has a fully liberalized economy and has enjoyed a strong relatively stable macroeconomic environment over the last two decades characterized by low inflation rate ranging between 4 to 5%, stable foreign exchange rate, foreign reserves averaging five months of import cover and an average GDP growth rate maintained at 6-8% per annum. This macroeconomic outlook provides a strong foundation for green MSMEs to thrive. The third National Development Plan (NDPIII) macroeconomic strategy is set to maintain this economic stance. Indeed, the overall goal of NDPIII macroeconomic management is to accelerate and sustain inclusive economic growth, while maintaining macroeconomic stability and debt sustainability.

Specifically, the economy is comprised of sectors that are sensitive to a green growth, which makes the green economy part and parcel of the country's development process. Table 4 below illustrates the main sectoral composition of Uganda's economy by size.

Table 4: Size and Sector Composition of Uganda's Economy

S/N	Sector	Size (% Contribution to GDP 2019/20)
1	Agriculture	24.0
2	Tourism	7.3
3	Industry	26.2
4	Services	43.0
5	Manufacturing	15.9
6	Mining	1.2
7	ICT	2.0
8	Construction	5.5

Source: Compiled from NDPIII

4.2 Relevant Macroeconomic Indicators and their Implications on Green MSMEs/LGEs

The performance of LGEs depends on the macroeconomic environment whose state is conveyed by respective indicators. Table 5 below indicates the state of macroeconomic indicators as of Financial Year 2019/20.

Table 5: Macroeconomic Indicators FY 2019/20

S/N	Macroeconomic Indicator	FY 2019/20
1.	GDP (PPP)	US$ 35.78bn
	GDP Growth Rate	2.9%
2.	GDP per capita (PPP)	US$ 910
3.	Public and private debt to GDP	41.6%
4.	Interest payment to revenue	21.34
7.	Core Inflation	3.6
8.	Trade deficit	US$ 3,658.1M
9.	GINI	0.41
10.	Output gap/fiscal space estimate	13.7% of GDP
11	Population growth rate	3.03%
12	Population size	41.6 million people
13	Gender inequality index	0.523
14.	Tax to GDP ratio (percentage)	12.58

Source: Uganda Bureau of Statistics Annual Statistical Abstract, 2020.

Table 6: Labour Macroeconomic Indicators

S/N	Employment by Sector	Percentage contribution to Employment
1	Agriculture	64.3%
2	Tourism	2.6%
3	Construction	2.6%
4	Trade	12.1%
5	Transport	3.2%
6	Education	2.6%
7	Hotel, restaurants	2.1%
8	Manufacturing	3.8%

Source: UBOS Statistical Abstract, 2020

4.3 Monetary Policy

According to the Bank of Uganda, the current monetary policy is designed to meet the challenges of macroeconomic management with a primary objective of controlling inflation over the medium term horizon. It is conceptualized around targeting an appropriate inflation rate of 5 percent with a monthly set interest rate (Central Bank Rate) as the operating target of monetary policy. The February 2021 Monetary Policy Statement issued by the Bank of Uganda indicates that the Central Bank Rate was maintained at 7 percent while annual core inflation declined from 5.9 to 5.5 percent. This monetary policy regime of targeting a low inflation rate of 5 percent favours the operation of LGEs particularly those that are paying off loans. This is because hyperinflation is usually accompanied by an increase in interest rates by Commercial Banks on both existing and new loans which adversely affects LGEs. Besides, a high inflation also stimulates depreciation of the local currency which makes importation of raw materials expensive for green MSMEs/LGEs that use imported raw materials.

On further scrutiny, monetary policy has not consistently supported the growth of LGEs. For instance, it has failed to control, the interest rates charged by commercial banks and the money lenders. LGEs are the major causalities of the high interest rates which has stifled their financial access and ultimately their growth.

4.4 Fiscal Policy

While Uganda's fiscal policy in light of green MSMEs/LGEs has generated some merits, there is still room for improvement. According to the Uganda Investment Authority's guide on tax incentives and exemptions, some of the imported items exempted from duties and taxes include; compact fluorescent builds and specialized solar equipment and accessories, electrical energy saving bulbs for lighting and specialized solar and wind energy equipment. This particular fiscal regime will go a long way in accelerating the transition to a green energy mix and increasing the competitiveness of LGEs involved in renewable energy equipment. Indeed, a recent report from the UBOS indicates that the consumption of solar energy in Uganda bas increased.

The above notwithstanding, empirical evidence indicates that the current fiscal regime and strategy undermines the growth and formalization of SMEs. For instance, the 2018 Uganda Entrepreneurial Ecosystem Initiative (UEEI) survey of high growth MSMEs discovered that tax and tax administration was the most cited constraint to growth while a study on informality in Greater Kampala affirmed that tax rate and aggressive/unfair tax administration practices curtailed MSMEs growth (Hobson, Sameh and Kathage, 2017). Relatedly, the existing myriad of taxes (as enumerated in table 7) and their administration also undermines compliance by LGEs which further curtails their growth by missing out on benefits that accrue to tax compliance including; trust of consumers who prefer buying from legitimate suppliers, undertaking visible impactful marketing without any fear of being recognized by the tax authority, access to formal finance and ability to participate in bidding for government contracts.

Table 7: Taxes, fees, charges and levies paid by MSMEs/LGEs

Activity	Responsible Institution	Tax/Levy/Fine/Charge
Starting a Business		
Company name reservation fee	URSB	UGX 20,000 + UG 2,200 bank fee
Registration of company documents	URSB	UGX 20,000
Filing of company resolutions and forms	URSB	UGX 20,000 per form
Stamp duty on transfer of shares	URSB	1.5% on amount transferred
Registration of transfer shares	URSB	UGX 20,000 + 1% of amount of shares transferred
Local Government Taxes and Charges (e.g Kampala Capital City Authority)		
Trading license, required by all businesses and renewed annually	Municipal authority	Varies depending on location and nature of business
Local service tax	Municipal authority	Depends on monthly turn over up to 100,000
Property tax	Municipal authority	Minimum charge of UGX 2,000 but usually between 1 to 12 percent of rate
Market charges (paid by market vendors for stalls, shops and stores	Municipal authority	Varies, paid monthly
Central Government		
Presumptive income tax	URA	Depends on grow annual turnover, upto UGX 2,062,500
VAT on inputs		18% on value of good/service
Import duties (albeit most MSMEs may not import goods directly themselves)	URA	Varies , 0 – 60
Excise duties	URA	Varies depending on good
Employee-related taxes and charges		
Employee social security contributions	NSSF	5% of gross salaries
Pay as You Earn withholding	URA	Depends ion salary bands, 10-40%
Regulatory Charges		
Annual returns filing	URSB	UGX 50,000
PPDA provider registration	PPDA	Works: UGX 187,500; Services and supplies: UGX 150,000; Annual Renewal: UGX 50,000
Stamp duty on contracts	URBS	
Taxes on typical business expenses		
Motor Vehicle registration	URA	UGX 1,028,000 to 1,718,000 depending on vehicle size
Motor vehicle transfer	URA	UGX 84,000
Mobile money levy on withdraws	URA	0.5% of value
Mobile money transfer excise duty	URA	Varies according to transaction costs

Source: Enterprise Uganda (2019): Rethinking Small Business Taxation

From the table above is clear that the taxes, fees, levies, fines and charges are many and are increasingly becoming a big burden to the growth, competitiveness and greening of MSMEs. This calls for a regulatory impact assessment of the taxes, fees, levies, fines and charges on green MSMEs/LGEs.

4.4.1 Relating the Post COVID-19 Stimulus Package to Green MSMEs/ LGEs

In light of the COVID-19 impacts on MSMEs and the economy at large, the 2020/21 national budget was themed on *'Stimulating the Economy to Safeguard Livelihoods, Jobs, Businesses and Industrial Recovery'* with one of the objectives being boosting economic transformation through re-igniting business activity.

Some of the actions targeting MSMEs enumerated under the budget include:

i. Provision of credit through SACCOs and Micro Finance Institutions to support micro and small-scale enterprises. An estimated UGX 94bn was allocated to this cause in FY2020/21;

ii. Increase access to credit at Uganda Development Bank to offer low interest financing to manufacturing, agribusiness and other private sector firms. Financial resources amounting to UGX 1,045bn were allocated to this cause;

iii. Increase funding to Uganda Development Corporation for public private partnership investments to facilitate import substitution and export promotion. UGX 138bn was earmarked to this action;

iv. Provision for Banks to restructure loans to their borrowers who are facing liquidity constraints and provide additional liquidity on a case by case basis, as recently guided by the Bank of Uganda;

v. Reduction of charges on mobile banking and mobile money transactions, to improve efficiency, reduce person-to person contact to prevent spread of the Corona Virus; and

vi. Expedition of the payment of arrears owed by Government to private sector firms commencing July 2020 in order to address liquidity constraints faced by suppliers. UGX 673Bn was allocated to this cause.

Other interventions included; deferring payment of Corporate Income Tax or Presumptive tax for Corporations and Small, Medium Enterprises (SMEs) and waiving of interest on tax arrears.

Whilst this intervention was commendable, the structural factors discussed earlier that inhibit access to credit by LGEs may hamper access to the different forms of stimuli that were provided for under the national budget for FY 2020/21. Equally important is the high borrowing by government from green MSMEs/LGEs which stifles their growth and expansion. For instance, UGX 673Bn was allocated to pay outstanding arrears owed by Government to the private sector firms which indicates high borrowing and delayed payment by

Government. This implies that LGEs that lack adequate capital to continue operating in the face of delayed payment after service delivery may end up closing or facing severe financial setbacks.

Despite its good intentions, the COVID-19 economic stimulus package did not remove the underlying conditions that impede LGEs from accessing credit. For instance, the Uganda Development Bank one of the financial institutions through which the economic stimulus package is implemented still maintains its lending requirements such as; provision of collateral security, a rigorous credit appraisal processes, high lending thresholds and legal registration requirements. All these requirements alienate LGEs from accessing credit provided by government under the COVID-19 economic stimulus package.

4.5 Financing of Local Green Enterprises in Uganda

One of the key issues and main barriers affecting LGEs in Uganda is access to affordable financing for expansion, maintenance and even starting a business especially for local green entrepreneurs. The key factor that accounts for this challenge is the high cost of credit indicated by the high interest rates imposed on borrowed capital. Whilst the Bank of Uganda attempts to lower its Central Bank Rate to trigger commercial bank to lower their interest rates, the expected response by the latter is never realized. Indeed, a recent publication by the National Planning Authority indicates that the continued accommodative monetary policy by the Central Bank notwithstanding which includes the reduction of the Central Bank Rate to 7 percent in the last nine months, the lending rates by commercial banks have been stuck at a high average of 19.2 percent. However, the study attributes the non-responsiveness of commercial banks to the high overhead and operational costs faced by financial intermediaries and the high domestic borrowing by Government which triggers increases in the interest rate. The persistence of high interest rates is also attributed to high risks and uncertainties faced by commercial banks in lending to MSMEs and the limited availability of long term capital.

Besides interest rates, the other factors that undermine financial access by LGEs include:

i. Low levels of financial literacy in terms of financial management thus falling short on credit worthiness;

ii. High collateral requirements for accessing financing which green MSMEs lack most of the time;

iii. Informality of several green MSMEs especially in the agriculture sector which hampers their ability to benefit from formal support rendered by Government to formal MSMEs.

While there are barriers to access to finance, there are also instances of limited demand or underutilization of the available financial resources by MSMEs.

In terms of ranking the above challenges; the high interest rate is the most important as it affects all green MSMEs across the board including those in the formal and informal categories, financial literacy comes second because it impedes full access to existing financial products and services, high collateral requirements comes third which even affects those that are able and willing to pay the high interest rate yet lack the required collateral requirements, in fourth position is the issue of registration especially in collective member organizations, local governments and tax bodies to evade paying taxes and licenses. Lastly, informality also curtails access to finance and credit. Informality is largely driven by low financial literacy and lack of exposure to Business Development Services among others.

It is noteworthy that the challenge of access to credit and finance is not limited to green MSMEs but spills over to other segments of the economy including the big enterprises. This emanates from the fact that financial infrastructure such as money markets, stock markets and capital markets are still under developed. Since all sectors and entities in the country are under the same regulatory framework, it implies that access to finance is a state wide challenge albeit vulnerability and severity of the challenge varies across different players.

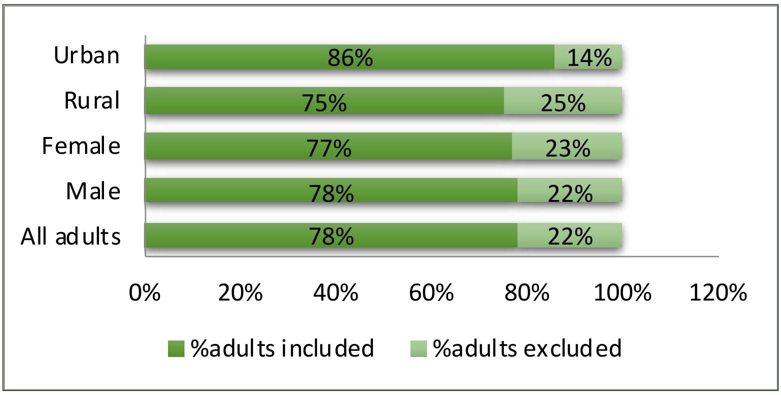
4.6 Social Equity in Access to Green Financial Services

The challenge of access to finance is further pronounced at individual level with specific categories of the population facing varying difficulties. For instance, vulnerable categories such as women, refugees, youth elderly and ethnic minorities face more difficulties in accessing credit relative to other privileged groups. These difficulties are compounded by lack of collateral such as; registered land, premises and valuable assets required by financial institutions. Besides, these groups are more likely to suffer from financial illiteracy, they dominate the informal sector and have limited social networks and connections which are critical in accessing finance. Equally important, although access to finance is necessary, it is not solely sufficient to trigger socioeconomic transformation of these vulnerable sections of society. Access to finance ought to be accompanied by capacity building in basic financial management, business development and ability to identify opportunities and tap into them for self and community development. Fortunately, there are several ongoing initiatives by state and non-state actors to empower LGEs in terms of financial literacy. One of these is Enterprise Uganda which is a state owned entity dedicated to offering Business Development Services (BDS) to MSMEs both in the informal and formal sectors.

A 2018 study on financial access by Finscope indicated that not all citizens have access to basic financial services. For instance, the uptake of savings, credit insurance and payment services is estimated at 78 percent (14.4M) of Ugandan adults with 22 percent (4.2M) being financially excluded both formally and informally. Additionally, the study noted that financial inclusion is significantly inclined towards adults from urban areas (86 percent – 3.8M) relative to the 75 percent (10.6M) of rural residents. At the same time, 50 percent of savers

(5 million adults) save informally – with savings group, giving it to someone in the community to keep safe while 34 percent of savers (3.4M adults) save with formal financial institutions – mobile phones, with commercial banks and microfinance institutions.

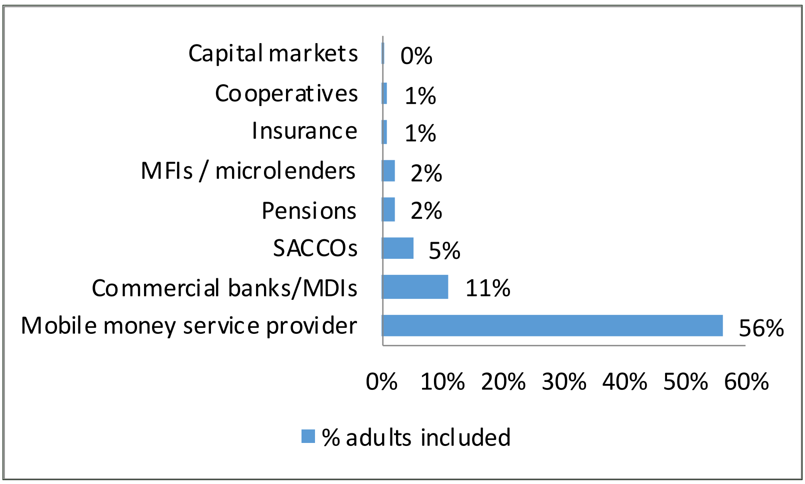
Figure 1: State of Financial Inclusion in Uganda



Source: FINSCOPE Report, 2018

With regards to uptake and usage, over a half of Ugandan adults (58 percent – 10.8M) have taken formal financial services. This constitutes 63 percent of males and 54 percent of females in urban areas. Generally, 77 percent (3.4M) of urban adults relative to 56 percent (10.4M) of rural adults have been served and this uptake is largely driven by mobile money with 43% of adults (7.9M) registered, 8 percent (1.5M) access mobile money through family and friends whilst 5 percent (0.9M) use the service through agents.

Figure 2: Uptake of Financial Services by Source



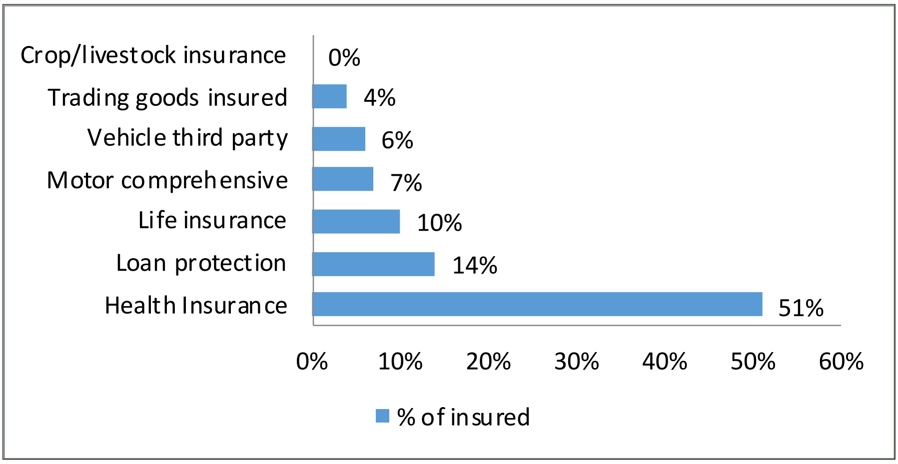
Source: FINSCOPE Report, 2018

The Report elaborates that the major barriers to uptake of formal financial services are largely demand driven. Supply side barriers include proximity to commercial banks, unavailability of microfinance services within the residential community. With regards to usage of Informal Service Providers, the Finscope report revealed that more than half of Ugandan adults (56 percent) use informal services with females (57% - 5.7M) being more likely to use these services than males. Also, the use of informal financial services is more pronounced in the rural areas than urban areas.

4.7 Insurance

Generally, the uptake of formal insurance products is low albeit Ugandan adults protect themselves through informal means such as membership to community health schemes, burial societies and community-based savings groups that offer financial assistance to members in times of need. The 2018 Finscope Report on Financial Inclusion noted the low penetration rate of Insurance Services with only 1 percent of adults (0.22M) with an insurance cover. Of the 1 percent adults, more than 50 percent have health insurance with minimal uptake of agricultural insurance although many adults earn money from farming.

Figure 3: Uptake of Insurance



Source: FINSCOPE Report, 2018.

In a nutshell, whilst there are commendable initiatives geared towards ensuring financial inclusion, more needs to be done to enhance equitable access and uptake by all categories of society.

4.8 Current Challenges Affecting Uganda's Green Financial Ecosystem and Remediation

Evidently, Uganda's financial ecosystem has experienced remarkable growth over the last two decades. Several financial platforms – both formal and informal have sprouted including numerous commercial banks, development banks such as the Uganda Development Bank, Microfinance Institutions, Savings and Credit Cooperative Organizations (SACCOs), Non-Life and Micro Insurance, Micro Pensions, Agriculture finance, Equity finance companies, Digital financial services and Agent banking among others. These gains notwithstanding, the sector is also plagued with challenges such as:

i. Inadequate access to and use of finance. Although financial resources are available, they are not accessible to the majority of potential users especially the green MSMEs/LGEs. This is driven by low financial literacy especially in the area of digital finance, limited awareness about existing financial opportunities, unstable cash flows, low productivity, low resilience and high probability of failure.

ii. A big proportion of the population still remains financially excluded. These include; the youths, the women, the rural and urban poor, those in the informal sector and in the subsistence sector. For instance, 68.9 percent[3] of the agricultural sector is still at subsistence level. It is therefore clear that financial inclusion is very weak.

iii. Access to long term finance is very limited. The capital markets infrastructure is still underdeveloped while the innovation and supporting infrastructure is also weak. Although, there are many relevant policies and regulatory frameworks, there are still many outstanding implementation challenges.

iv. The financial ecosystem is also faced with a mismatch between the demand and supply of financial products and services.

v. There are also some financial segments and products which are still underdeveloped. A case in point are the Capital and Financial markets are still weak. Innovative financial products especially those based on Digital Financial Services are relatively few and inaccessible to potential customers especially in the rural and informal sectors. Related, Uganda has only one development bank which is also under-capitalized. Also, the use of digital payments for bill payments is still under appreciated. Whilst mobile money has been embraced, usage of other digital platforms such as credit cards and insurance payments is still in its nascent stages partly due to the fact that Uganda is largely entrenched in a cash economy.

To address these challenges, Uganda developed a National Financial Inclusion Strategy (NFIS) 2017-2022 focused on ensuring that all Ugandans have access to, and use of a broad range of quality and affordable financial services which help to ensure their financial security.

The NFIS has five pillars namely:

i. Reduce financial exclusion and barriers to access financial services;

ii. Develop the credit infrastructure;

3 https://pesacheck.org/are-68-of-ugandans-engaged-in-subsistence-farming-1b61ceebeb20

iii. Build the digital infrastructure;

iv. Deepen and broaden formal savings, investment and insurance usage; and

v. Protect and empower individuals with enhanced financial capability.

The strategy targets to reduce financial exclusion from 15% in 2017 to 5% in 2022.[4]

4.8.1 Relevance of Mobile Banking or Digital Financial Services in Uganda

Mobile banking / Digital Financial Services is gaining traction in Uganda and is being used as a store of value since it encourages savings by providing a secure and widespread mechanism to facilitate formal savings across socioeconomic boundaries. It is also convenient since it is integrated with participating commercial banks to provide mobile saving products. It has been reported that those with a mobile money account are 32 percent more likely to report having some savings compared to those without (Lwanga and Adong 2016). In terms of growth, the growth of mobile money services in Uganda has been relatively strong due to increased demand for domestic remittances, deepening of the quality of existing financial services and improvement in the regulatory framework (Evans and Prichio 2014).

Digital Financial Services have also stimulated financial inclusion in Uganda partly owing to its convenience. There are 27.1M registered mobile money accounts which is over half of Uganda's population size of 40M.[5] The 2019 Financial Stability Report by the Bank of Uganda indicates that the use of digital payments/mobile money to pay for goods and services such as groceries, medical treatment as well as school fees significantly increased in June 2019. This growth was owing to deliberate efforts by Government, commercial banks and Bank of Uganda to promote digital payments as alternatives to cash coupled with customers' demands for fast, convenient and efficient payments. In the same vein, the total number of active debit cards issued by banks as of June 2019 grew by 19.3 percent to 2.4M while the volume of payments made by debit cards stood at 2.8M equivalent to 2.4M people.[6] Similarly, the volume of payments made by debit cards stood at 2.8M which yields into a value of UGX 650.4Bn. Whilst the number of credit cards continues to increase, their use remains relatively low in comparison to debit cards partly due to the limited number of merchants and outlets that accept credit cards.

Digital Financial Services such as mobile money and banking, have immensely boosted access to micro-credit since the service providers have included micro-loans among their products, although one must have accrued the requisite threshold of transactions to qualify for these micro-loans. Also, some mobile network service providers such as MTN Uganda have partnerships with dealers in solar products where individuals purchase solar panels on credit and pay

4 Republic of Uganda. National Financial Inclusion Strategy 2017-2022

5 Uganda Communications Communication Report 2019

6 Bank of Uganda (2019). Financial Stability Report

in instalment via mobile money. For instance, several mobile money telecom companies have contracts with M-Kopa (a distributor of solar panels) where payments for these solar devices can be made via mobile money platforms. Related, Airtel has developed a mobile money group-wallet solution for savings groups to enable them to store their saved funds on mobile money. However, these gains are not fully safeguarded from poor network infrastructure and data insecurity.

The above progress of Digital Financial Services and particularly Mobile Money Services notwithstanding, the system is still plagued by weak regulation which is generally left to the private service providers. The easier lending process has triggered to over indebtedness with some clients abandoning their SIM cards due to failure to clear debts. There are also cases of loss of funds where individuals erroneously send money to wrong numbers yet the system does not provide for transaction reversal unless one calls the telecom company which leaves clients at the mercy and good will of wrong recipients of money. Mobile Money Banking is currently being undertaken at two levels – mobile phone companies solely and secondly, in partnership with commercial banks. Despite the challenges, Mobile Money Banking which is in itself green banking is promoting the financial inclusion of LGEs.

Digital Financial Services such as mobile money face a barrier of growing taxation which risks jeopardising previous gains in financial inclusion if not well regulated. With the growing number of subscribers and volume of transactions, the government continues to view it as a cash cow that ought to be taxed to generate government revenue. The other barrier is the short term weak network connectivity especially in remote rural areas. This will certainly be addressed in the long term when the ongoing government upgrading of the National Data Transmission Backbone Infrastructure (NBI) is completed.

Besides the growing Digital Financial Services, there has been a proliferation of irresponsible predatory money lenders (loan sharks) in Uganda. This is an indicator of rising demand for credit and the inadequacy of formal credit institutions to meet the growing demand and a gap in the regulation and supervision of financial institutions. Predatory lending practices thrive on barriers to accessing financial support against its high demand with most of its victims being MSMEs including LGEs in the informal sector. Critically, albeit the money lenders or loan sharks are predatory in nature, they offer short term relief to those in financial needs. Their high costs and unfair terms notwithstanding, these predatory lenders enhance financial access and help to bridge the gap created by formal financial institutions whose terms and conditions are prohibitive to MSMEs especially those in the informal sector.

Also, there are particular concerns regarding the increased financialization of the economy. For instance, Uganda still has a large subsistence sector especially in the rural agricultural sector. The increasing financialization of the economy in the face of weak attendant economic empowerment strategies is compounding inequality between those involved in the formal financialized economy and the poor stuck in subsistence. Increased financialization implies that those engaged in subsistence are unable to financially access basic goods and services.

5.0 Mapping the Financial Regulatory Landscape: The Role of the Central Bank

The role of the Bank of Uganda is to formulate, coordinate and manage monetary policy in order to ensure macroeconomic stability through fostering price stability and a sound financial system. The primary policy objective of the Bank of Uganda's monetary policy is to hold annual core inflation to a medium-term target of 5 percent. A secondary policy objective of monetary policy is to ensure that real output is as close as possible to the economy's potential level.

5.1 Banking Regulations

There are a number of rules that regulate lending to green MSMEs/LGEs that vary from Bank to Bank under the supervision of the Bank of Uganda. For example, the Uganda Development Bank requires; bank and loan statement for the last 12 months, a copy of the National Environment Management Authority (NEMA) Certification of Application where applicable, proof of staff social security compliance for people employing more than 15 people, a copy of investment license and statutory licenses from relevant government agencies. Equally important, banks have moved on from sole acceptance of immovable assets as collateral, to accepting movable assets as well. The 2019 Security Interest in Movable Property provides for use of movable property by both individuals and corporations. The absence of this provision had made some small LGEs to resort to informal lenders for credit since they were more flexible and accommodating movable collateral. Besides the adoption of movable assets, there is growing use of social collateral in microfinance lending. This is largely common with micro-finance lending institutions such as Savings and Credit Cooperatives. It is also picking up in the banking industry and for a group to qualify, it must be formally registered and demonstrate the ability to pay. Social collateral in microfinance lending is improving financial access and inclusiveness of LGEs.

For easy tracking of collateral attached, Uganda has a collateral registry manned by the Uganda Registration Services Bureau (URSB). One of them is the security interest in Movable Property Registry, a fully online system that is managed and coordinated by the Uganda Registration Services Bureau. This Registry was established under the Security Interest in Movable Property Act (2019) to allow MSMEs as well as individuals' access credit using their movable assets as collateral for loans. The Registry allows secured creditors to register their security interests in movable assets such as livestock, crops, motor vehicles, electronics, and furniture while providing the public with notice of the existence of such security interest. This online registry is deemed to convince financial and non-financial institutions (creditors) who prefer traditional collateral like land and buildings to access movable assets registry and enable them evaluate the risk of lending based on movable assets.

To ensure protection of creditors' rights, there is a National Insolvency Act, 2011 which protects creditors and elaborates on how creditors can go about recovering their credit in case the debtor defaults or fails to pay. It empowers creditors to direct a trustee to call meetings during bankruptcy and form a committee of inspection comprised of persons holding general powers of attorney from creditors or authorised directors of companies which are creditors of bankrupt. The law indicates that the trustee may decline to call the meeting directed by creditors in case the trustee ascertains that the request was not made in good faith and in cases where the costs of calling the meeting would be out of proportion to the value of the bankrupt's estate.

5.2 Debtors and Consumer Protection

The Central Bank has put in place regulations to ensure debtors and consumers' protection in financial services. Bank of Uganda developed the Financial Consumer Guidelines in 2011 which are available on its website. The guidelines govern all financial institutions regulated by the Bank of Uganda. They have four objectives:

i. promote fair and equitable financial services practices by setting minimum standards for financial services providers in dealing with consumers;
ii. increase transparency in order to inform and empower consumers of financial services;
iii. foster confidence in the financial services sector; and
iv. provide efficient and effective mechanisms for handling consumer complaints relating to the provision of financial products and services.

These guidelines are based on the principles of fairness, reliability and transparency.

There are also emerging cases of ensuring that an insolvent entrepreneur is poised to benefit from debt restructuring scheme. This has become more pronounced with the emergency of COVID-19 where the economic meltdown resulted into several borrowers sinking into insolvent situations. Bank of Uganda issued guidelines on Credit Relief and Loan Restructuring Measures for financial institutions to cope with the unprecedented times. These guidelines go beyond individual entrepreneurs to also cover insolvent companies.

Importantly, it is noteworthy that increasing ease to access credit and debt also poses a risk of over indebtedness which may direly impact entrepreneurs and companies. The risk of over indebtedness is likely to undermine long term survival of green entrepreneurship initiatives. Over indebtedness is usually accompanied by insolvency yet the debt relief guidelines issued by the Bank of Uganda only provide for loan rescheduling twice in 12 years. This implies that businesses or entrepreneurial initiatives that are over indebted and need their loans rescheduled more than twice will have to file for bankruptcy or insolvency.

While the growing protection of debtors' is feared to potentially impede access to funding, there are various informal avenues of credit and money lenders who may not observe or feel bound by the debtor protection's rights. Besides, formal lending institutions undertake risk assessment and due diligence before issuing credit and as such, they may not be impeded by debtors' protection.

With regards to debtors and consumers receiving adequate political attention, it can be concluded that whilst the will is there, follow up and enforcement of the will is still weak. This is indicated by several local enterprises that have been taken over by lenders and creditors without any intervention to reschedule their loans to avoid insolvency or auctioning of the debtors' property by creditors. This results into loss of jobs and revenue to the government in the long term. This is more prevalent with locally owned enterprise as compared to the international corporations.

6.0 Recommendations

Improving Uganda's financial architecture to serve green MSMEs/LGEs requires multi-interventions, some of which are recommended below:

1. Implement targeted environment fiscal reforms, subsidies, fiscal tools such as tax exemptions/reductions on energy, green products, inputs, machinery and equipment produced or used by LGEs in order to make them more competitive, innovative and access green technologies;
2. Create green funds dedicated to promoting access to affordable finance by LGEs complimented with Business Development Services to facilitate effective use of the available resources;
3. Fast track the development of a national green growth financing strategy to guide the process of mobilising and use of financial resources by MSMEs/LGEs and facilitate the implementation of the Uganda Green Growth Development Strategy;
4. Promote the participation of MSMEs in sustainable green public procurements e.g. through collective bidding for government contracts including encouraging their registration, licensing, certification and standardisation;
5. Institute risk sharing schemes between government, development partners and lending institutions (commercial banks) such as credit guarantees, insurance schemes e.g. agricultural insurance to lower risks of lending to green MSMEs/LGEs. This will as well reduce interest rates on loans and increase access to affordable finance by green MSMEs/LGEs.
6. Balance both the demand and supply sides of financing to green MSMEs/LGEs to remove demand and supply constraints to accessing affordable financing.
7. Overhaul the regulatory landscape, harmonize laws and policies to improve the ease doing business, competitiveness and promoting green investments.
8. Provide BDS support to MSMEs/LGEs as a pre-requisite for the access and effective utilisation of finance, human and materials resources.
9. Reduce government borrowing from commercial banks to lower interest rates and avoid crowding out of green MSMEs/LGEs.

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

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