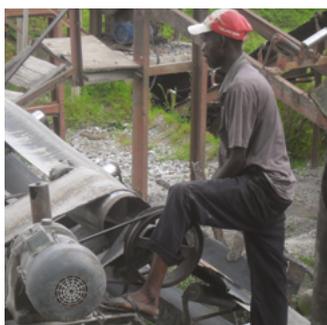
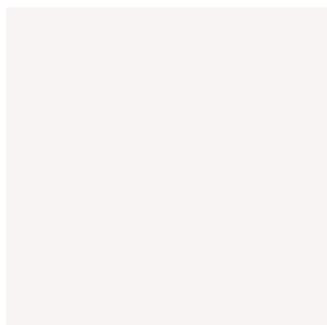
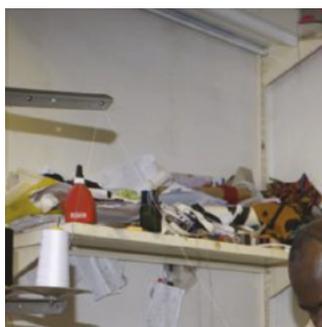
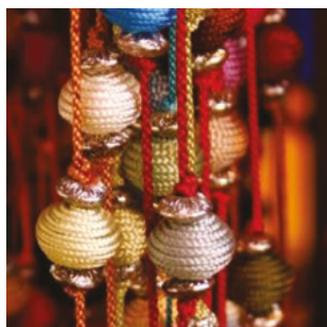


# NATIONAL SMALL BUSINESS SURVEY OF UGANDA

MARCH 2015





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# EXECUTIVE SUMMARY

Micro, Small and Medium Enterprises (MSMEs) play a vital role in the development of the Ugandan economy. MSMEs collectively constitute about 90% of private sector production and employ over 2.5 million people. To assess the nature and scope of MSMEs in Uganda, Financial Sector Deepening Uganda (FSDU) contracted Nathan Associates and TNS to carry out a nationally representative Small Business Survey. The purpose of the survey is to identify constraints to MSMEs' development and growth with a focus on access to finance, infrastructure, business development services, markets and technology. This report presents findings of this study.

A total of 1,839 face to face interviews were completed with MSMEs in Uganda between March and August 2014. The sampling frame was developed from the Census of Business Establishments in Uganda (COBE). In order to understand the constraints to growth, the survey focussed on growth-oriented MSMEs.

## Characteristics of MSMEs in Uganda

MSMEs in Uganda are diverse in nature, being spread across a wide range of industrial sectors; as many as ten sectors comprise five per cent or more of the overall base of MSMEs. The highest proportion of MSMEs work in the agricultural sector (14%), followed by the education & health sector (13%), and recreation & personal (10%).

MSMEs in Uganda are relatively young enterprises; a majority (69%) of them are aged between one and ten years old. The entrepreneurial nature of the Ugandan MSME environment is highly visible; nearly nine out of ten owners started up using their own funds, and nearly three quarters operate as sole proprietorships. MSMEs are run and typically managed by owners - under a third (31%) have a manager who is in charge of operations. Owners are also relatively well-educated; over half have secondary education or higher.

It is also an intimate environment; MSMEs' main clients are far more likely to be individuals (81.1%) than companies, and in most cases (66%) MSMEs operate in the same immediate local area as their customers. From each of the typical five members of staff, normally one is a relative. Moreover, MSMEs rely on word of mouth, and say that friends and family are key players in finding out about suppliers (63%), and are also more likely to have provided start-up funding than formal lenders. Talking to customers is the main way that MSMEs find out about business opportunities (73.9%), yet, perhaps because they are small, only 15% of MSMEs belong to business associations.

## Constraints to growth

The key constraints to growth which MSMEs feel confront them are financial. They centre around both 'limited access to finance' (74.3%), and the 'cost of finance' (73.2%). It is clear from the survey that a fundamental challenge is the extent to which commercial banks and other financial institutions have stringent requirements around security (collateral) which MSMEs are not able to meet.

Tax, roads, electricity, the broader macroeconomic environment, access to land and corruption are the other constraints felt by over half of the respondents to the survey. Water shortage was found to be less of a constraint than electricity outages.

The research has also highlighted that in Uganda, a majority of MSMEs (63%) do not have access to the internet. Internet penetration is lowest among micro-sized businesses (at 31%), half the proportion of medium-sized MSMEs who have access.

## Finance

There is a reasonably high level of awareness of financial concepts among MSMEs, and moreover most felt they had some need for a range of financial management services presented to them.

In particular, MSMEs clearly have an appetite for loans, with over 40% of each size of MSME saying they had ever applied for one, and at least a third – across sizes of MSME - saying they intend to apply for one in the next twelve months. Loan applications do vary by sector however; from as low as 25% in forestry to as high as 53% in construction. The most common reason for a loan application is working capital (73%). However, most fail to access loans because banks require collateral which a majority of MSMEs are unable to provide. Where a loan has been granted, in most cases land is used as collateral.

Commercial banking and mobile banking both play a central role. Larger firms tend towards conventional banking, and smaller firms mobile banking. Over three quarters (78%) of medium-sized businesses use commercial banks to access financial services, in comparison with 70% and 55% of small and micro businesses respectively. Mobile money is used by 47% of medium-sized businesses, 49% of small and 57% of micro-sized enterprises.

Banks are still the most common formal sources of loans among businesses that do manage to secure loans - 48% of these businesses source their loans from banks. The second most common source of loans is microfinance institutions (MFIs), from which 25% of businesses had sourced their loans.

## Opportunities

Access to finance emerges as a policy priority for all stakeholder groups with an interest in the commercial sector in Uganda. When asked directly what the government's priorities should be, access to finance was the most common response, stated by 74% of respondents. Improving infrastructure (62%), providing business services (46%) and improving security (45%) were the other priorities that MSMEs would want the government of Uganda can support them with.

One fifth of MSMEs have not registered, and three quarters do not have a tax identification number. Around a quarter say they do not know how to register, or that it is too complicated to do so. There is an opportunity to help MSMEs to comply and thrive by simplifying the registration process. There could also be an opportunity for the public and private sectors and development partners to work to create an enabling environment for businesses to thrive through measures such as an accommodative tax policy.

With only two per cent of MSMEs owned by those aged between 18 and 24, the Government of Uganda may also have an opportunity to create strategies to encourage and facilitate young people to engage in MSME activities.

# INTRODUCTION

Micro Small and Medium Enterprises (MSMEs) play a vital role in the development of economies and societies. The MSME sector contributes to economies in many ways, including by offering job opportunities which can help lower the unemployment rate, by addressing the demographic challenges posed by growing populations, and by contributing to the generation of domestic income. Countries with more SME employment tend to experience higher growth<sup>1</sup>, as SMEs tend to employ more labour-intensive production processes than large enterprises, and that as a result they create more employment opportunities.

This is particularly relevant in Uganda. The Ugandan economy is supported mainly by Micro, Small and Medium Enterprises (MSMEs), collectively constituting about 90% of private sector production. Spread across all sectors of the economy, they are the primary source of new jobs. Overall they employ more than 2.5 million people including marginalized groups such as women and youth (MFPED 2011)<sup>2</sup>, and play a crucial role in income generation, especially for the poor (Uganda Investment Authority 2008)<sup>3</sup>. In Uganda, many MSMEs operate in the informal sector and are known to make use of raw materials found within the country (labour and other inputs) more intensively than other forms of enterprise.

According to the Ministry of Finance, Planning and Economic Development (MFPED), the majority of MSMEs have fewer than 20 employees. MFPED defines a 'Micro Enterprise' as an enterprise employing up to four people, with an annual turnover of 12 million Uganda shillings, a 'Small Enterprise' as an enterprise employing between 5 and 50 people, with an annual sales/revenue turnover total asset of up to Uganda Shillings (USH.) 360 million, and a 'Medium Enterprise' as an enterprise that employs more than 50 people with an annual sales turnover or assets of between (USH.) 360 million and 30 billion.

To assess the nature and scope of MSMEs in Uganda, Financial Sector Deepening Uganda (FSDU) contracted Nathan Associates and TNS to carry out a nationally representative Small Business Survey. The survey aimed to identify constraints to MSMEs' development and growth with a focus on access to finance, infrastructure, business development services, markets and technology. This report presents findings of this study.

## **There were two principal aims of this research:**

- To assess the nature and scope of MSMEs in Uganda
- To identify constraints on MSMEs' development and growth, with a focus on access to finance, infrastructure, business development services, markets and technology

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1. Ayyagari, M., Beck, T. & Demirgüç-Kunt, A. (2007). Small and Medium Enterprises across the Globe. *Small Business Economics*, 29, 415–434.

2. Ministry of Finance, Planning and Economic Development (2011). *Development of a National Micro, Small and Medium Enterprises (MSMEs) Policy and Strategy*.

3. Uganda Investment Authority (2008) *Small and Medium Enterprises Business Guide*.

# RESEARCH METHODOLOGY

The nature of the objectives required a quantitative methodology. In total, 1,839 interviews were completed. Data collection was done face to face with the enterprises using a structured questionnaire in Computer Assisted Personal Interviewing (CAPI) i.e. tablet devices containing a pre-scripted questionnaire which each interviewer had been fully trained to administer.

## 2.1 SAMPLING FRAME

The sampling frame was 454,104 enterprises identified in the Census of Business Establishments (COBE) that have between 1-20 employees. A sample of 2000 enterprises was drawn from this frame with the intention of achieving quotas per sampling unit. The final number of successful interviews was 1,839

## 2.2 SAMPLING UNITS

The primary sampling unit was the size of the business (measured by number of employees). This was categorized in terms of; Micro, Small and Medium. For the purpose of this survey, the definition of MSMEs was originally agreed as follows:

- Micro: Businesses with four or fewer employees
- Small: Businesses with five to nine employees
- Medium: Businesses with ten to twenty employees

The survey is interested in growth oriented businesses. Therefore those businesses that were listed as having one employee during the establishment census and are found to still have one employee during appointments, were excluded as they were assumed to be not growth oriented.

Business Size	Successfully interviewed
Micro	1290
Small	338
Medium	211
<b>Total</b>	<b>1839</b>

**Table 1:** Distribution of sample by business size

The secondary sampling unit was the sector in which the business operates. The categories used are shown in *Table 2*, alongside their distributed by sector and region:

Sector	Northern	Eastern	Western	Central	Kampala	Total
Accommodation	26	22	32	43	17	140
Agriculture	3	47	41	149	20	260
Construction	4	6	12	7	9	38
Education & Health	31	33	49	96	29	238
Financial	18	8	84	11	5	126
Fishing	0	0	7	26	0	33
Food Processing	18	39	27	43	21	148
Forestry	0	1	2	3	2	8
Information & Communication	10	16	42	22	26	116
Mining	1	5	5	17	7	35
Other Manufacturing	27	12	47	59	24	169
Real Estate	1	0	6	34	40	81
Recreation & Personal	13	24	40	71	42	190
Trading	14	9	24	38	65	150
Transport & Storage	6	32	12	22	28	100
Utilities	1	2	1	3	0	7
<b>Total</b>	<b>173</b>	<b>256</b>	<b>431</b>	<b>644</b>	<b>335</b>	<b>1839</b>

**Table 2:** Distribution of sample by sector and region

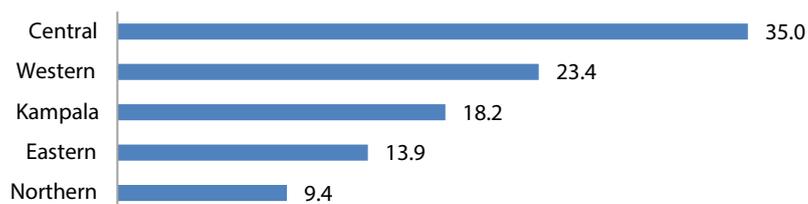
# STUDY FINDINGS

## 3.1 BACKGROUND AND CHARACTERISTICS

This section describes the characteristics of the MSMEs interviewed, their locations, their distribution across sectors and business size and their demographic make-up.

### 3.1.1 Locations of MSMEs

Over a third of surveyed MSMEs are located in the Central region (35%), under a quarter (23.4%) in the Western region and just fewer than one in five (18.2%) of the businesses are located in Kampala.



**Figure 1:** Distribution of businesses by region (%)

The importance of the contribution of MSMEs across sectors is made clear from this survey. While the highest proportion of MSMEs are operating in the agricultural sector (14%), this is followed closely by education and health (13%) and recreation and personal (10%). The sectors with lowest involvement with MSMEs are utilities and forestry which each accounted for 0.4% of the sample (Table 3).

A key finding is the extent to which the five regions are made up on very different types of MSMEs. For example, only in the North is education and health the key sector. In the East, food processing and transport and storage are significantly more commonplace than anywhere else in the country. Central is the region with the highest degree of involvement in agriculture, and also has the highest involvement in fishing. MSMEs in Kampala stand out for having four times more involvement in trading than their counterparts in any other region. Any strategy to support MSMEs in Uganda therefore has to be specific to each region.

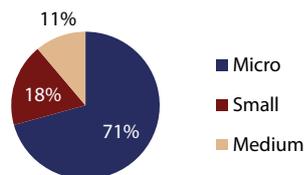
In addition, the sector profile of the smaller MSMEs – the micro companies - differs considerably from the sector composition of the medium categories. In the micro segment the agricultural sector is clearly prevalent (comprising 16% of all microenterprises), with no other sector representing more than 10%. In the small and medium categories however, the education and health sector is dominant, more than twice as common as any other sector.

	Total %	Size			Region				
		Micro %	Small %	Medium %	Northern %	Eastern %	Western %	Central %	Kampala %
AGRICULTURE	14.1	16.0	9.8	10.0	1.7	18.4	9.5	23.1	6.0
EDUCATION & HEALTH	12.9	8.9	20.4	25.6	17.9	12.9	11.4	14.9	8.7
RECREATION & PERSONAL	10.3	10.5	9.8	10.0	7.5	9.4	9.3	11.0	12.5
OTHER MANUFACTURING	9.2	10.7	5.9	5.2	15.6	4.7	10.9	9.2	7.2
TRADING	8.2	9.1	5.0	7.6	8.1	3.5	5.6	5.9	19.4
FOOD PROCESSING	8.0	8.4	6.5	8.1	10.4	15.2	6.3	6.7	6.3
ACCOMMODATION	7.6	7.1	8.6	9.5	15.0	8.6	7.4	6.7	5.1
FINANCIAL	6.9	7.4	6.8	3.3	10.4	3.1	19.5	1.7	1.5
INFORMATION & COMMUNICATION	6.3	7.1	5.3	3.3	5.8	6.3	9.7	3.4	7.8
TRANSPORT & STORAGE	5.4	4.7	8.0	6.2	3.5	12.5	2.8	3.4	8.4
REAL ESTATE	4.4	4.2	6.2	2.8	0.6	0.0	1.4	5.3	11.9
CONSTRUCTION	2.1	2.0	2.1	2.4	2.3	2.3	2.8	1.1	2.7
MINING	1.9	2.2	1.2	1.4	0.6	2.0	1.2	2.6	2.1
FISHING	1.8	1.1	3.6	3.3	0.0	0.0	1.6	4.0	0.0
FORESTRY	0.4	0.5	0.0	0.5	0.0	0.4	0.5	0.5	0.6
UTILITIES	0.4	0.2	0.9	0.9	0.6	0.8	0.2	0.5	0.0

**Table 3:** Distribution of businesses by Sector

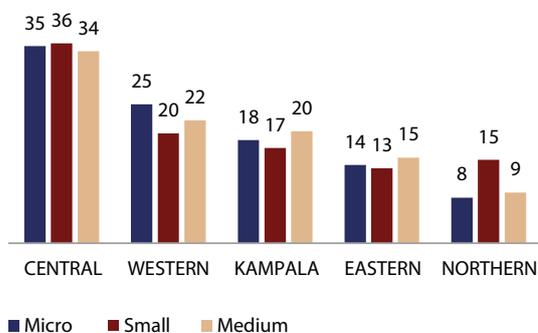
### 3.1.2 Size of businesses

Micro firms – those with fewer than four employees - dominate the MSME landscape in Uganda. Nearly three quarters (71%) of the businesses interviewed are categorized as micro, while 18% were found to be small (between five and nine employees) and 11% were medium sized (ten or more employees).



**Figure 2:** Distribution of businesses by size (%)

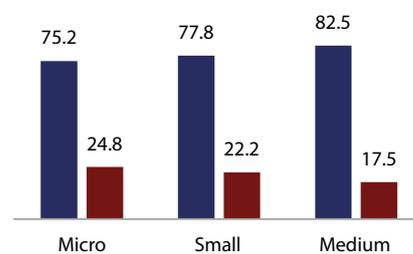
For most regions, little difference was observed in terms of the composition of MSMEs by size. In the Central, Western and Eastern regions, and in Kampala, only modest differences in the balance of businesses by size are seen. The one notable exception is the Northern region. Here, small businesses are significantly more common (15%) than Micro (8%) or Medium (9%) businesses.



**Figure 3:** Distribution of businesses by size and region (%)

### 3.1.3 Gender of business owner

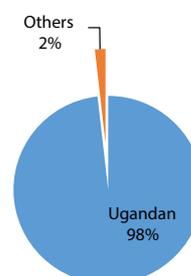
The majority of business owners are male (76%), across business size and sectors. Across sectors, ownership of businesses in the utilities sector was purely male (100%), however, in some sectors ownership was almost equally balanced – in the education & health (56% male, 44% female) and accommodation sectors (58% male, 42% female).



**Figure 4:** Distribution of respondents by gender (%)

### 3.1.5 Nationality of business owners

Ownership of MSMEs is dominated by Ugandan nationals. In total Ugandan nationals own 98% of businesses participating in the research, with only 2% owned by other nationalities – comprised by Indians (1%), Kenyans (0.2%), Rwandans (0.1%) Ethiopians (0.1%) and other nationalities (0.6%).



**Figure 5:** Nationalities of business owners

### 3.1.6 Primary business activities

Companies were asked about the primary activities they are involved in. To some extent the responses mirror the data on the prevalence of MSMEs across sectors. The high degree of involvement of MSMEs in agriculture is reflected in the most common response relating to involvement in crop and animal production (16%). Other primary activities undertaken by more than one in ten companies include; food and beverage service (11%), and retail trade (except for motor vehicles) (11%).



Figure 6: Primary activity of businesses (%)

### 3.1.7 Age of MSME businesses

Nearly a third are still in their first five years, and approaching three quarters are younger than ten years old, while less than ten per cent of these businesses have operated for more than 20 years. These findings echo other research (MFPED, 2011) 4 which points to a high mortality rate for small businesses in Uganda.

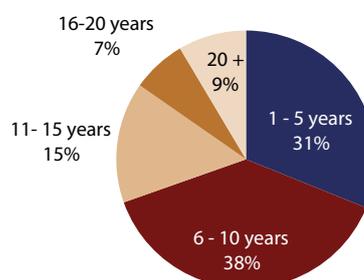


Figure 7: Age of businesses

### 3.1.8 Legal Status of business

Nearly three out of four MSME owners had registered their businesses as sole proprietorships (74%), leaving 12% that had registered as limited companies, and just one in ten as partnerships. This doubtless reflects the overall composition of the sample as being 71% micro businesses.

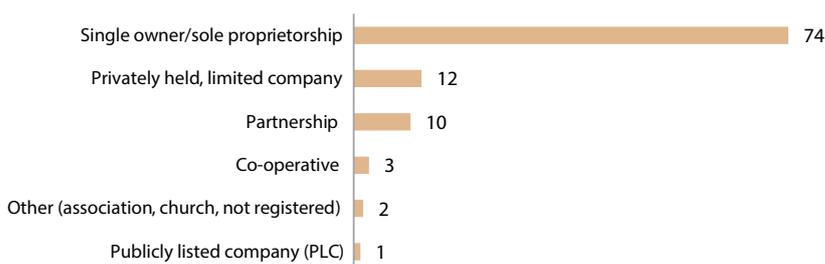


Figure 8: Legal status of business (total sample)(%)

A clear majority of micro businesses (80%) are under sole proprietorship. The medium sized enterprises are spread across different legal status with 52% being under sole proprietorship, 24% under limited company and 16% under partnership.

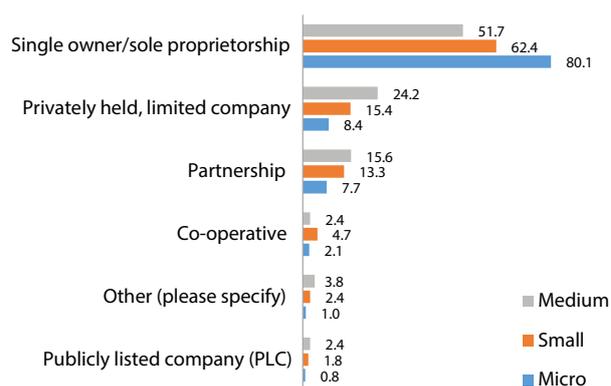


Figure 9: Legal Status of business by size (%)

### 3.1.9 Location of premises

When asked about the physical situation in which they operate, a clear majority of MSME business owners explained that they operate their businesses from formal premises (66%) such as offices, business complexes, factories and shops. Only around a fifth of respondents operate their businesses in informal markets (such as streets, lake shores, containers) and only 13% of companies conduct their business from home.

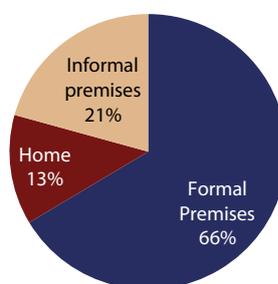


Figure 10: Location of business premises.

### 3.1.10 Ownership of premises where business operates

A majority of MSMEs (59%) use their premises on a rental basis; they have either rented the premises or have rented land where the premises are located. Only one fifth (21%) own the land and premises from which they operate (Table 4).

	Total %
Premises/land are rented	58.9
I/someone within the business owns the premises/land	21.0
A family member owns the premises/land	6.4
Premises/land are just used or occupied	2.8
Other (please specify)	16

Table 4: Ownership of premises

### 3.1.11 Education level of MSME owners

Three quarters of the businesses were founded independently by business owners. This aligns the finding shown in Figure 9 which indicates that a majority of businesses are owned on a sole proprietorship basis.

	Total %	Micro %	Small %	Medium %
Independently, by myself	75.4	80.2	66.6	60.2
With a business partner	16.8	12.2	25.1	31.3
Obtained from family	3.1	3.1	2.7	3.8
Bought from someone else	1.8	2.1	1.8	0.5
Other	2.8	2.3	3.8	4.3

Table 5: How the business was founded

### 3.1.12 Education level of MSME owners

Almost all owners (98%) had received some form of formal education. Moreover results show that over a quarter of MSMEs owners (28%) have secondary level of education, 26% a university education and a fifth tertiary education (Figure 11) whereas just 16% had completed only a primary level of education.

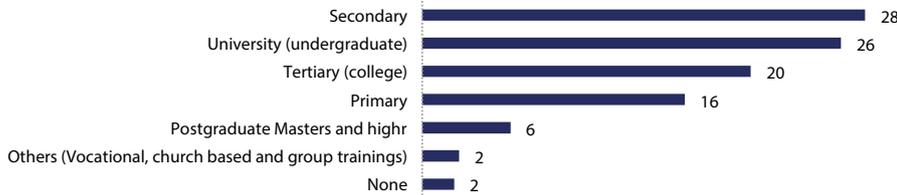


Figure 11: Education level of MSME owners (%)

### 3.1.13 Age distribution of business owners

Just over half of all business owners interviewed were aged between 35 and 50 (52%). The next most common age group was those in the 25 to 34 bracket (30%). Very few business owners were found to be aged between 18 and 24 years (two percent) (Figure 12).

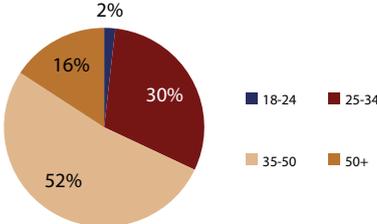


Figure 12: Age distribution of business owners

**ONLY 2% OF MSME OWNERS ARE AGED 18-24**

## 3.2 EMPLOYMENT AND ENTREPRENEURIAL SKILLS

### 3.2.1 Permanent and casual labour

The research sought to explore staffing levels from both the permanent and casual labour perspectives. The average number of permanent employees is five, and casual employees is two. The larger the MSME, the more they rely on permanent staff. For micro and small firms the balance of permanent to casual staff is two-to-one and three-to-one respectively. For medium sized firms it rises to almost four-to-one.

Of every five permanent employees, two are female. Females make up most of the casual labour in the micro and small sectors, but a minority in the medium-sized MSMEs.

The data shows a considerable degree of variation especially in terms of how MSMEs across sectors use casual labour. While the general trend is for casual labourers to be used in the minority, the exception is the construction industry, where nearly twice as many employees are casual as are permanent. In the forestry sector on the other hand, casual labour is not used.

The education and health sector employs the highest actual number of permanent employees – eight on average - whereas both mining and 'other manufacturing', average just three employees.

Businesses were also asked how many of their staff are related to the owner; in most sectors this was either zero or one. Only in the fishing industry was it more likely for relatives to be employed, the average being two.

All businesses were asked about who had sufficient training, and who had experience of 2 years or more. On average MSMEs have two employees who have appropriate training with 4 workers having more than 2 years of experience (*Table 6*).

Size	Total	Micro	Small	Medium
Permanent	5	2	6	19
Permanent Female	2	1	2	7
Casual	2	1	2	5
Casual Female	1	1	2	2
Relatives	1	0	1	1
Appropriate Formal Training	2	1	3	9
Work Experience of 2 years	4	2	4	13

**Table 6:** Average number of permanent and casual employees by size of MSME

**THE LARGER THE MSME, THE MORE THEY RELY ON PERMANENT EMPLOYEES**

### 3.2.2 Average monthly salary and employee training

Considerable variation is shown in the average monthly salary earned across sectors. The utilities sector pays relatively high salaries in comparison with other sectors. Permanent employees in this sector receive an average of USH. 1,460,000 (USD 500) per month. Casual employees in the utilities sector are also paid higher than other sectors, receiving an average of USH. 766,700 (USD 260) per month. A majority of businesses pay their employees from their monthly revenue with businesses in the forestry sector paying 100% of employee salaries from the monthly revenue (Table 7). Employees with formal training and those with two years of experience earn higher salaries. On average those with formal training earn a monthly salary of USH. 231,700 (USD 80) while those with two years of experience earn an average monthly salary of 234,700 (USD 81) (Table 7).

		Permanent Employees	Casual Employees	Relatives	Employees with Formal Training	Employees with 2 consecutive years of experience	Fraction of workforce paid from monthly revenue
		Ush.	Ush.	Ush.	Ush.	Ush.	%
	Total	204,000	107,500	129,400	231,700	234,700	69
Sector	Accommodation	122,500	80,200	59,700	176,200	123,400	58
	Agriculture	118,600	102,900	72,300	197,600	117,400	73
	Construction	297,500	123,400	124,000	327,900	445,800	63
	Education & health	222,600	97,200	145,200	197,100	213,000	75
	Financial	458,300	97,400	124,000	366,200	376,900	76
	Fishing	220,000	174,700	156,400	200,000	236,400	61
	Food processing	122,900	74,900	83,900	185,200	142,800	59
	Forestry	87,300	100,000	200,000	190,000	95,700	100
	Information & communication	169,700	88,300	123,800	166,100	183,000	75
	Mining	240,600	88,800	83,300	162,500	141,500	71
	Other manufacturing	146,700	156,300	188,100	140,900	143,900	65
	Real estate	319,400	144,800	171,100	277,500	291,100	69
	Recreation & personal	135,500	91,300	109,500	188,700	148,900	73
	Trading	220,100	74,600	137,400	411,900	281,800	58
Transport & storage	304,400	158,400	297,400	390,600	806,900	54	
Utilities	1,460,000	766,700	0	350,000	275,000	100	
Size	Micro	169,100	96,600	101,600	185,600	159,600	69
	Small	221,900	100,900	179,800	237,900	409,400	68
	Medium	365,600	164,900	227,600	375,200	356,500	73
Region	Northern	192,300	96,700	79,400	223,000	186,600	36
	Eastern	218,200	111,700	131,200	243,800	193,500	24
	Western	167,800	77,300	80,700	206,500	175,500	93
	Central	171,900	113,600	118,400	197,500	168,200	81
	Kampala	322,400	135,300	212,300	310,100	485,900	57

Table 7: Average monthly Salary by Sector, Region and Business size

### 3.2.3 Management of business operations

In most cases, business owners play a hands-on role in the management of the MSME on a daily basis. In terms of daily operations management, over two-thirds (69%) of business owners are in charge of their businesses while 31% who opted to have a manager who is in charge of operations.

### 3.2.4 Incidence of membership of associations

Relatively few MSMEs are part of formal membership networks; only 15% of business owners interviewed have joined associations. Membership is however more common among the slightly larger businesses; medium-sized firms are twice as likely to be members as micro firms. Precisely a quarter of those who are member of associations are female.

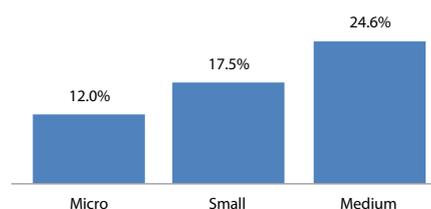


Figure 13: Membership to association by business size

## Membership of associations across sectors

Businesses in the utilities sector are clearly more likely to be in associations than other sectors. Nearly three out of four businesses in the sector belong to an association. The financial sector has the second-highest proportion of businesses (36%) belonging to associations, followed by the agriculture sector (25%) and the transport and storage sectors (24%).

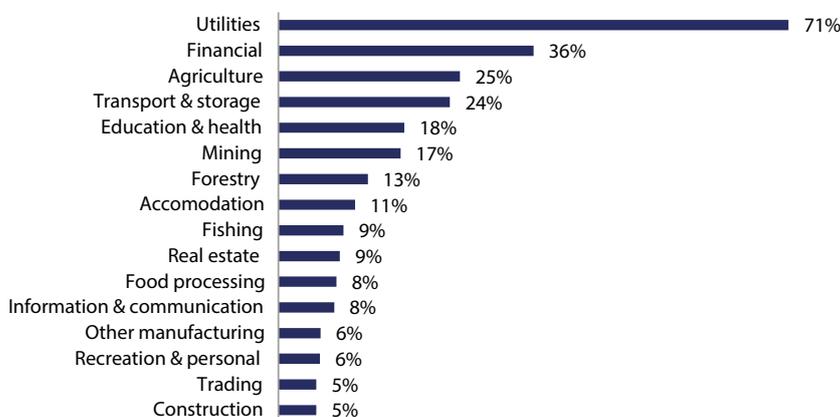


Figure 14: Membership of associations by sector

## Reasons for joining membership associations

Reflecting the competitive nature of the MSME environment, the key reasons for joining associations are 'networking' and 'getting information about customers / markets'. Otherwise, it is clear that perceptions of the benefits of associations vary considerably across micro, small and medium enterprises. Medium-sized companies see more benefit in terms of information about new technologies, customers and markets, suppliers and inputs, and training. The one area where small enterprises felt they had benefited more than medium-sized firms was networking.

	Total %	Micro %	Small %	Medium %
Information about new technologies	35.0	29.0	39.0	48.1
Information about customers/markets	58.3	57.4	57.6	61.5
Information about suppliers/inputs	26.3	18.7	32.2	42.3
Networking	60.9	53.5	72.9	69.2
Information about/access to training	43.2	36.8	45.8	59.6
Other (Finance, Funds, Loans)	9.8	12.3	6.8	5.8
Base = 266				

Table 8: Benefits of Associations to Business

## 3.2.5 Information on doing business

The main source of information on doing business is customers, followed by friends and relatives. Nearly three quarters (74%) of businesses receive information about opportunities to do business by talking to customers, 62% mentioned talking to friend and relatives. The media was ranked third with less than half (42%) of businesses using media to source information on business opportunities. Further analysis by size of business shows that medium-sized businesses stand out for being more likely to rely on the media and business associations.

	Total %	Micro %	Small %	Medium %
Talking to customers	73.9	73.7	77.2	69.7
Talking to friends/relatives	62.4	64.1	59.5	56.4
Media (internet, newspapers, radio, television, magazines)	42.1	36.0	52.1	63.5
Talking to suppliers	28.1	27.4	29.0	30.3
Business association	27.2	24.0	29.6	43.6
Government institutions	11.6	7.1	21.9	23.2
Other (church, trainings, research)	5.6	5.7	4.1	7.1
Financial institutions	5.2	3.8	5.9	12.8

**Table 9:** Sources of Information about Doing Business by Business Size

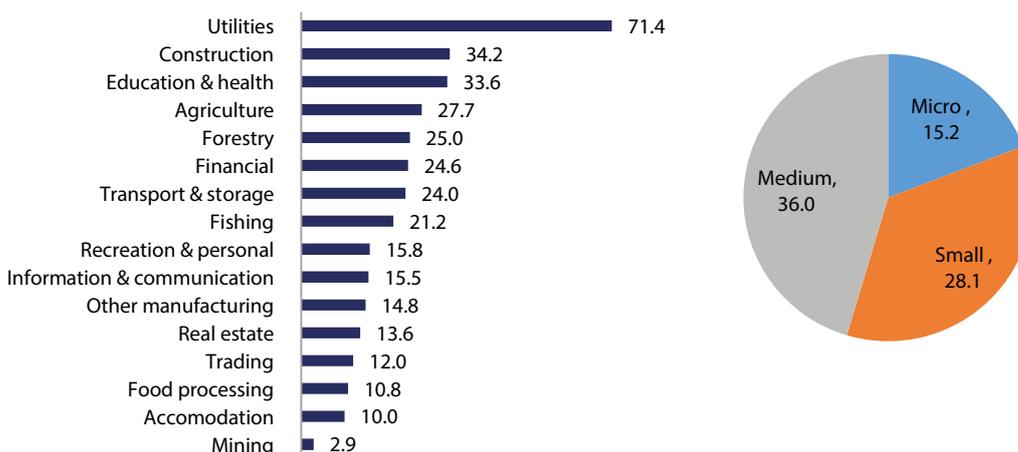
Businesses were also asked about their preferred source of information. The preferred sources are customers and the media. Financial institutions are the least preferred source of those listed (Table 10).

	Total %	Micro %	Small %	Medium %
Talking to suppliers	6.6	7.9	3.0	4.7
Talking to friends/relatives	19.0	21.4	16.6	8.5
Talking to customers	33.9	35.4	32.8	26.1
Other (church, trainings, research)	7.6	8.1	5.3	8.1
Media (internet, newspapers, radio, television, magazines)	19.1	15.9	24.9	29.4
Government institutions	3.9	2.6	6.8	7.6
Financial institutions	1.0	0.8	1.2	0.9
Business association	9.0	8.0	9.5	14.7

**Table 10:** Preferred source of information about doing business

### 3.2.6 Expert advice

In the past three years, few MSMEs have sought expert advice. Only one fifth of businesses sought for expert advice to improve operations, performance and productivity. Medium sized businesses seem to use more expert advice (36%) as compared to small (28%) and micro (15%).

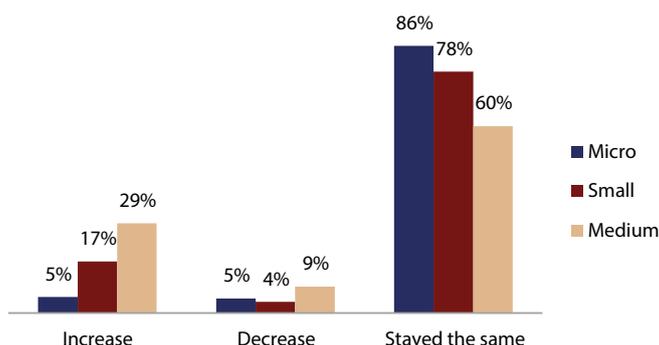


**Figure 15:** Use of expert advice by size and sector (%)

Among the businesses that did seek expert advice, 52% paid for the service while 44% did not pay for it. A majority (23%) of those who have not paid for the service have been paid for by the government.

### 3.2.7 Workforce turnover

There is relative stability in the size of the workforce of MSMEs, and evidence of more increases than decreases. More than four out of five managers (82%) said that the workforce size has stayed the same over the past one year. One in ten had enjoyed an increase and just five per cent a decrease. Across business sizes, a similar picture is portrayed with 86% of micro sized businesses having retained the same size of workforce, 78% of small businesses stayed the same and 60% of the medium businesses staying the same. What is also noteworthy is that 29% of medium-sized MSMEs owners reported having increased their staff levels through hiring of new staff.



**29% OF MEDIUM SIZED ENTERPRISE OWNERS REPORTED HAVING INCREASED THEIR STAFF LEVELS**

Figure 16: Workforce Turnover by Business Size

### 3.2.8 Broadening of financial management services

A range of financial management services were shown to respondents who were asked to describe their awareness of and interest in each. At least nine out of ten knew one of each of the services listed.

Broadly, high degrees of interest were observed across the different options. Although views differed on how each service might be brought in, most respondents showed an interest in most services. The only service that nearly half were not interested in was 'Legal / tax services' (49%). For all the others, at least 60% of respondents expressed an interest in each. Those who showed interest indicated that they would like the services to be developed within their businesses (Table 11). Generally, interest in outsourcing was limited.

	Do not need	Need but don't have	Would want to develop within the business	Would want to outsource	Not aware of
	%	%	%	%	%
Legal/tax services	49	22	14	7	8
Loan application and other financial services	38	40	18	4	1
ICT	26	29	26	9	10
Research and development	24	28	28	10	10
Environment, health and safety	18	33	34	10	5
Standardization and quality assurance	16	35	31	11	8
Sales and Marketing	16	33	40	8	3
Business planning services	14	37	42	6	2
Business management Information	13	33	38	11	5
Other (security, land, transport)	1	40	55	4	0

Table 11: Financial management services

### 3.3 FINANCE

Finance is pinpointed by MSMEs as the primary constraint on growth, and it is explored in detail in this section. This section looks at MSMEs' interactions with finance from different perspectives, including usage (and reasons for non-usage), awareness and understanding of financial services, experience with loans, how financial service providers are chosen, and how financial records are kept.

#### 3.3.1 Access to start-up funding

Respondents were asked how they had financed the start-up of their company. A clear majority (86%) said they had used their own funds to start their business. In comparison, less than seven per cent were financed through friends' and family funds, and banks had provided start-up funding in less than four per cent of cases. The proportion of MSMEs borrowing from microfinance institutions is negligible (0.4%). Looking at the data by business size, only one per cent of the medium scale businesses received funding from microfinance loans to start their businesses (*Table 12*). Most MSMEs cited lack of collateral as the reason for inability to access money from financial institutions.

### BANKS PROVIDE START-UP CAPITAL FOR LESS THAN 4% OF THOSE WHO NEEDED IT

	Total %	Micro %	Small %	Medium %
Own funds	86.3	88	83	82
Friends/family funds	6.7	6	8	9
Bank loan	3.8	3	6	4
Microfinance loan	0.4	0	0	1
Other (church fund, donations, government)	2.8	2	4	5

**Table 12:** Source of Funding for Start-up by Business size

Similar analysis was carried out by region and sector. 100% of businesses in the forestry sector fund their own business. Only 1% of the agriculture, recreation and personnel and other manufacturing sectors receive funding from microfinance loans to start their businesses. The same applies to businesses across regions (*Table 13*).

Sector and Region		Own funds %	Friends/family funds %	Bank loan %	Microfinance loan %	Other (church) fund, donations, government %
Sector	Accommodation	87.1	7.1	5.0	0.0	0.7
	Agriculture	81.9	14.2	1.2	0.8	1.9
	Construction	86.8	7.9	5.3	0.0	0.0
	Education & health	84.0	6.3	3.4	0.4	5.9
	Financial	82.5	4.0	4.8	0.0	8.7
	Fishing	90.9	6.1	3.0	0.0	0.0
	Food processing	85.8	7.4	4.7	0.0	2.0
	Forestry	100.0	0.0	0.0	0.0	0.0
	Information & communication	89.7	5.2	3.4	0.0	1.7
	Mining	91.4	8.6	0.0	0.0	0.0
	Other manufacturing	86.4	4.7	6.5	1.2	1.2
	Real estate	82.7	8.6	8.6	0.0	0.0
	Recreation & personal	89.5	4.2	3.2	1.1	2.1
	Trading	92.7	3.3	3.3	0.0	0.7
	Transport & storage	87.0	4.0	3.0	0.0	6.0
	Utilities	71.4	0.0	0.0	0.0	28.6
Region	Northern	82.1	6.4	6.4	1.2	4.0
	Eastern	86.3	5.9	2.3	0.4	5.1
	Western	84.7	7.0	5.3	0.5	2.6
	Central	88.2	6.7	2.6	0.3	2.2
	Kampala	86.9	7.5	3.9	0.0	1.8

**Table 13:** Source of funding for start-up by sector and region

### 3.3.2 Maintenance of financial records

Businesses were asked to describe how they organise their finances. Four approaches were outlined and all were shown to be adopted to a significant degree. Across sizes of business, 'keeping all physical receipts in an organized manner' and 'book keeping for revenues (but not necessarily expenditures)' were more widespread than 'full financials (Revenue and expense excluding tax accounting)' or 'full financials (Revenue and expense including tax accounting)' (*Table 14*).

	Keeping all physical receipts in an organized manner	Book keeping for revenues (but not necessarily expenditures)	Do full financials (Revenue and expense excluding tax accounting)	Do full financials (Revenue and expense including tax accounting)
	%	%	%	%
<b>Total</b>	<b>62.4</b>	<b>53.2</b>	<b>30</b>	<b>28.1</b>
Micro	55.4	46.0	21.8	19.6
Small	75.7	67.2	43.5	41.7
Medium	83.4	74.4	58.8	57.8

**Table 14:** Financial records by business size

At the sector level, the same pattern of companies being more likely to keep 'all physical receipts in an organized manner' and undertake 'book keeping for revenues' were again more widespread than undertaking 'full financials'. Primary sectors such as agriculture, fishing and mining are shown to operate very differently, with a lower degree of organization.

	Keeping all physical receipts in an organized manner	Book keeping for revenues (but not necessarily expenditures)	Do full financials (Revenue and expense excluding tax accounting)	Do full financials (Revenue and expense including tax accounting)
	%	%	%	%
Accommodation	61	53	28	24
Agriculture	37	38	17	12
Construction	92	66	55	50
Education & health	87	73	45	44
Financial	91	81	60	58
Fishing	33	24	9	9
Food processing	51	49	28	24
Forestry	75	50	25	25
Information & communication	63	55	33	30
Mining	31	20	11	11
Other manufacturing	52	44	14	13
Real estate	73	56	37	38
Recreation & personal	58	50	24	21
Trading	62	47	21	16
Transport & storage	75	59	43	53
Utilities	86	71	71	86

**Table 15:** Financial records by sector

### 3.3.3 Use of financial products by business size

MSMEs use branchless banking (55%) almost as much as they use traditional banks (60%). Moreover the involvement of 'family and friends' is also highly significant - with over a quarter of businesses relying on those they know to get by. By comparison, only one in ten has experience with a micro finance provider. In terms of usage of these options by size, while 78% of medium sized businesses use commercial banks to access financial services, fewer small (70%) and micro (55%) businesses do so. The second most commonly used service among businesses is the mobile money service which 47% of medium sized businesses, 49% of small and 57% of micro sized businesses use (*Table 16*).

	Total %	Micro %	Small %	Medium %
Commercial Bank	60	55	70	78
Mobile money	55	57	49	47
Family and friends	26	28	22	19
Microfinance institution	11	12	9	9
SACCO	9	9	10	7
Money lender	3	3	2	2
Other financial institution	2	2	3	2
Credit/finance dealer	2	1	3	3

**Table 16:** Use of financial products by business size

**MOBILE MONEY AND THE COMMERCIAL BANKING SECTOR HAVE SIMILAR DEGREES OF INVOLVEMENT IN THE PROVISION OF FINANCE TO THE MSME ENVIRONMENT**

### 3.3.4 Use of financial services products by sector

Engagement with commercial banks skews towards larger industries. Engagement is highest in the construction industry (82%), with the finance sector close behind (79%). One further interesting aspect is that mining companies and agricultural firms particularly turn to friends and family for financial support. No sectors were found to stand out in terms of having a relationship with the microfinance sector.

	Credit/finance Dealer %	Commercial Bank %	Microfinance Institution %	SACCO %	Mobile Money %	Money Lender %	Family and friends %	Other financial institution %
Accommodation	3	60	9	6	54	0	20	1
Agriculture	2	47	9	19	58	4	42	2
Construction	3	82	5	3	50	0	24	0
Education & health	2	64	14	8	53	1	27	3
Financial	2	79	10	15	37	4	14	2
Fishing	0	46	6	9	67	3	15	0
Food processing	1	54	16	9	61	1	26	1
Forestry	0	75	0	0	50	0	25	13
Information & communication	2	72	10	7	53	1	21	3
Mining	0	29	14	3	63	0	49	3
Other manufacturing	2	50	18	8	60	4	32	2
Real estate	3	62	7	3	53	5	12	3
Recreation & personal	1	62	13	6	58	5	24	2
Trading	1	63	11	6	57	2	21	1
Transport & storage	2	71	4	5	48	1	21	5
Utilities	29	71	14	14	29	0	29	0

**Table 17:** Use of Financial Products by Sector

### 3.3.5 Frequency of usage of financial services products

The financial services that MSMEs use the most are saving accounts and mobile money. Savings accounts are used by more than half of small and medium sized businesses; 64% of medium sized businesses currently use them, compared to 61% of small businesses and 50% of micro businesses. Mobile money is the second most commonly used service – with uptake in the region of half of all businesses, across business sizes.

Credit and debit cards are rarely used by businesses interviewed; only three per cent have used these products. Another financial product with low usage levels is the foreign currency account, 93% of micro businesses have never used this facility. A total of 87% and 77% of small and medium scale respectively have never used the foreign currency account. Usage of all services skews towards the larger (medium-sized) firms, but this is especially true for current accounts and insurance.

		Total	Micro	Small	Medium
		%	%	%	%
ATM	Currently use	38.9	37.4	40.2	46.4
	Previously used	8.8	9.2	7.4	8.1
	Never used	52.3	53.4	52.4	45.5
Debit card	Currently use	3.4	2.6	4.7	6.6
	Previously used	3.7	2.7	5.6	6.6
	Never used	92.9	94.7	89.6	86.7
Credit card	Currently use	2.9	2.4	3.3	5.7
	Previously used	3.7	2.5	6.5	6.6
	Never used	93.4	95.1	90.2	87.7
Current account	Currently use	24.8	18.1	33.1	52.1
	Previously used	7.8	7.1	10.7	7.1
	Never used	67.4	74.7	56.2	40.8
Savings account	Currently use	53.3	49.8	60.7	63.5
	Previously used	7.8	8.6	5.3	6.6
	Never used	38.9	41.6	34.0	29.9
Mobile money	Currently use	55.4	57.5	49.7	51.2
	Previously used	8.5	9.0	6.8	8.5
	Never used	36.1	33.5	43.5	40.3
Foreign currency account	Currently use	6.3	4.2	7.7	16.6
	Previously used	4.2	3.3	6.2	6.2
	Never used	89.6	92.5	86.1	77.3
Insurance	Currently use	10.5	6.9	14.8	25.6
	Previously used	2.8	2.4	3.3	4.7
	Never used	86.7	90.7	82.0	69.7

**Table 18:** Usage of financial services products

### 3.3.6 Cash flow management

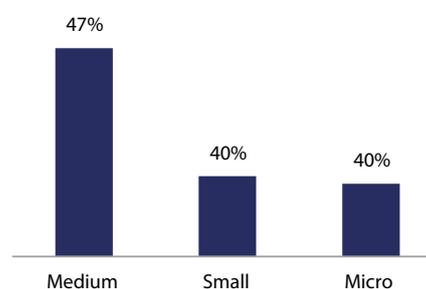
Businesses tend to manage their daily cash flow through the banks, however simply dealing with cash is a common alternative. Overall, 71% of medium-sized businesses manage their cash through their bank accounts, in comparison with 62% of small and 46% of micro-sized businesses. Working with cash is most common among micro businesses. Mobile money is a crucial aspect of making daily transactions, but very few (and again mainly the micro firms) use this as their primary mechanism for cash flow management.

	Total	Micro	Small	Medium
	%	%	%	%
Through bank account	51.9	46.1	62.4	70.6
Always keep cash in physical form	30.7	34.7	21.6	20.9
Through Mobile money	11.4	12.9	8.9	5.7
Through SACCO	3.3	3.3	4.1	2.4
Through MFI	2	2.0	2.7	0.5
Other (reinvest in stock)	0.8	1.0	0.3	0.0

**Table 19:** Cash flow management

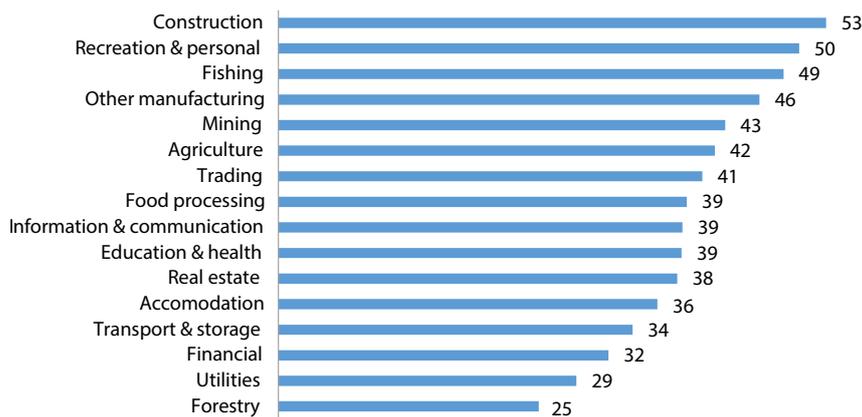
### 3.3.7 Loan applications

A little under half (41%) of businesses have ever applied for loans. Appetite for loans is fairly consistent across different sizes of business; 47% of medium sized businesses have ever applied for loans, while 40% of both micro and small businesses had done so.



**Figure 17:** Loan application by business size

The construction sector leads in loan application where 53 % of the businesses in this sector apply for loans. This is closely followed by the recreation and personal sector where half of the businesses apply for loans and the fishing sector again where close to half of the businesses had applied.



**Figure 18:** Loan application by sector (%)

Regionally, businesses from Western and Eastern regions showed the highest levels of propensity to borrow. In the Western region, 46% of businesses applied for loans while 42% of businesses in the Eastern region applied for them. Loan applications were lowest in the Northern region.

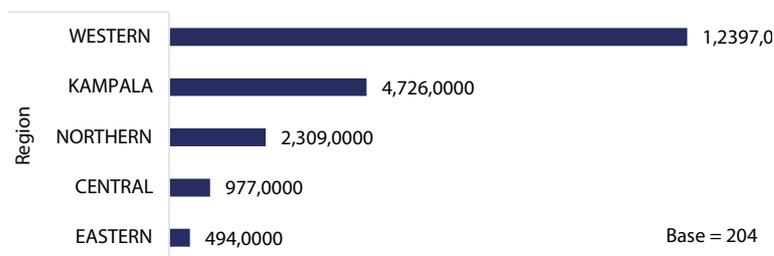


**Figure 19:** Loan application by region (%)

### 3.3.8 Loan values

The average (mean) loan value for businesses across the country is USHs. 46,620,000. Medium sized businesses have the largest average share of loans valued at USHs. 288,290,000. Micro sized businesses have loans averaging to USHs. 13,000,000.

Regionally, the Western region has the highest loan value with an average of USHs. 123,970,000 while Eastern region had the lowest loan value at USHs. 4,940,000.



**Figure 20:** Average loan value by region

### 3.3.9 Reasons for taking loans

A need for working capital is clearly the main reason for taking out a loan. 73% of the businesses who had received a loan did so for this reason. Capital investment is very much a secondary driver. Medium-sized firms are far more likely to be looking to invest in buildings / furniture.

	Total %	Micro %	Small %	Medium %
Working capital	73	78	68	54
Investment in machinery/equipment	10	11	7	8
Investment in new building/furniture	9	5	13	27
Other (School fees, solar)	5	3	10	8
Investment in vehicles	2	2	0	4
Trainings	1	1	0	0

Base = 204

**Table 20:** Reasons for taking loans by business size

### 3.3.10 Collateral used for loans

Land is the most commonly used form of collateral; 39% of businesses take loans using land as collateral and one in five using machinery. In a small proportion of cases businesses received unsecured loans (18%). Looking at use of collateral by business size, land is more likely to be used as collateral by all businesses with 42% of micro stating so while 32% and 35% of small and medium sized use land as collateral to acquire loans.

	Unsecured	Land	Building	Vehicle	Machinery/ equipment	Inventory	Cash deposits	Other (business, crops in the farm)
	%	%	%	%	%	%	%	%
<b>Total</b>	<b>18</b>	<b>39</b>	<b>13</b>	<b>3</b>	<b>20</b>	<b>2</b>	<b>8</b>	<b>11</b>
Micro	18	42	11	3	21	1	8	10
Small	19	32	13	3	19	0	7	16
Medium	12	35	23	4	12	4	15	15
Northern	17	50	0	0	67	0	0	0
Eastern	24	27	9	2	18	0	7	22
Western	12	46	12	4	14	6	14	4
Central	23	34	15	2	13	0	7	16
Kampala	10	50	18	5	33	0	8	3

**Table 21:** Collateral used to acquire loans

### 3.3.11 Institutions that provide loan

Commercial banks are the most common source of loans. 48% of those who acquired loans mentioned banks as the main source of loans; this was followed by micro finance institutions (25%), SACCOs (10%), groups and family and friends (Table 22).

Source of Loan	Total %	Micro %	Small %	Medium %
Banks	48.3	44.5	51.4	65.0
MFI	24.8	25.4	19.3	26.7
SACCO	10.0	12.5	3.2	3.8
Groups	8.5	10.5	6.4	0.0
Friends and Family	9.4	8.3	19.3	3.8

Base = 204

**Table 22:** Source of loans

### 3.3.12 Choices of financial service provider

The key driver to choosing any particular financial provider over another is the length of relationship with the institution. Beyond this, interest rates – the second most important constraint on doing business as described in section 3.9 – were said to have slightly more influence than the nature of collateral requirements or proximity to the firm (Table 23).

	Total %	Micro %	Small %	Medium %
Long relationship with that institution	53.9	56.5	51.6	42.3
Lowest interest	34.8	36.7	25.8	34.6
Closest (geographically) to my firm	20.1	21.8	12.9	19.2
Lowest collateral requirements	19.1	21.1	9.7	19.2
It was recommended by a friend/colleague	14.7	17.0	6.5	11.5
Other (it is the bank we use)	7.4	6.1	9.7	11.5
I know personally employees at that institution	5.9	4.8	9.7	7.7
Size of the bank	4.9	4.1	0.0	15.4

Base = 204

Table 23: Reason for choosing loan provider

### 3.3.13 Outstanding loans

Only a small proportion of businesses interviewed have outstanding loans; around one in ten for each size of firm. Regionally, as many as 18% of businesses in the Eastern region had outstanding loans, while just 4% from the Northern region had any outstanding loans.

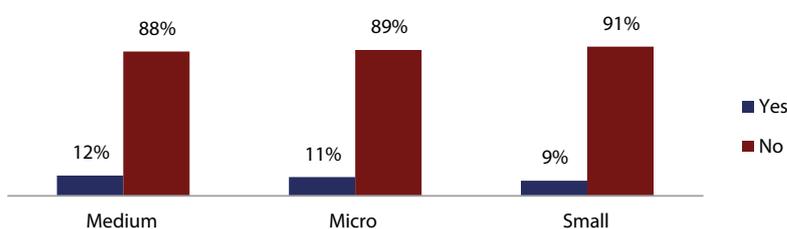


Figure 21: Outstanding Loans

### 3.3.14 Defaulting on loans

Failure to repay on time is rare. Among micro businesses, eight per cent failed to meet their loan obligations, among the larger two types of MSME this figure is far lower – below four per cent.

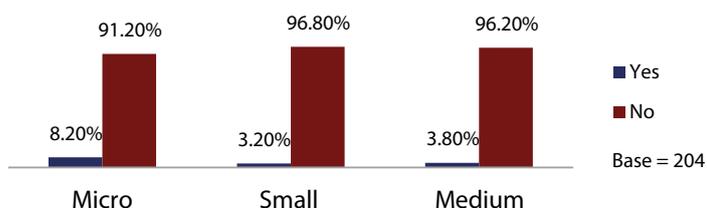


Figure 22: Businesses not Meeting Loan Obligations

### 3.3.15 Loan Rejection

Insufficient collateral is the main reason why businesses have had loan applications rejected. Among those whose loan applications were rejected, most (56%) mentioned a lack of collateral as the reason. Other reasons were far less commonplace; size of loan being too large for size of business (13%), lack of legal requirements (13%) and insufficient activity in the account (6%).

### 3.3.16 Loan appetite; next 12 months

Loan appetite is higher toward the smaller end of the MSME spectrum. Over a third of MSMEs surveyed are interested in taking loans in the next year; 41% of micro businesses, 37% and 33% of the small and medium sized businesses respectively.

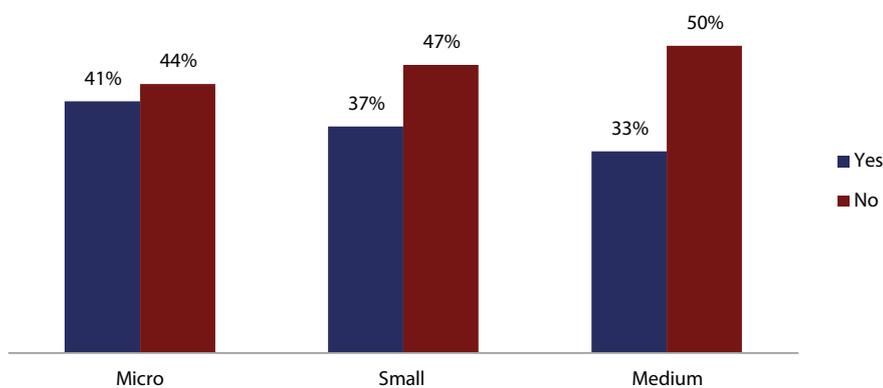


Figure 23: Loan appetite in the next 12 months

### 3.3.17 Time taken to access financial services

The time needed to access financial services seems not to be a major concern. This is not raised as a major constraint (Section 3.9), and with respondents saying that it takes about 20 minutes to get to the closest bank branch, MFI office or SACCO, the burden does not appear too high. Time taken to reach these services does not differ by size of business, differs by sector to some extent, but mainly differs by region. In terms of sector, business owners from the fishing sector said they need almost an hour to reach financial services. Figure 24 below shows how regionally, businesses in the Central region take close to half an hour to access the financial services while businesses in Kampala only take 13 minutes.

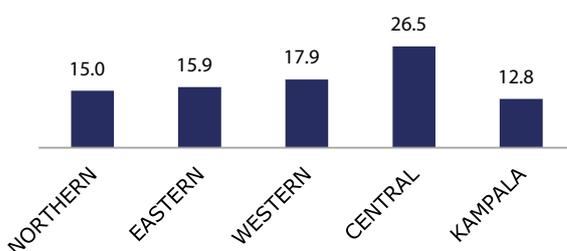


Figure 24: Time taken to access to financial services by region

### 3.3.18 Reasons for not using financial services

For the MSMEs that do not use financial services, the main reason given was that they do not generate enough income to do so. This was given as the main reason by 50% of the medium sized businesses, 47% of the small and 46% of the micro businesses (*Figure 25*). An absence of financial institutions was another common reason given. A preference for dealing with cash is also a driver, especially for medium sized firms, and nearly a quarter of small firms appear to distrust financial service providers.

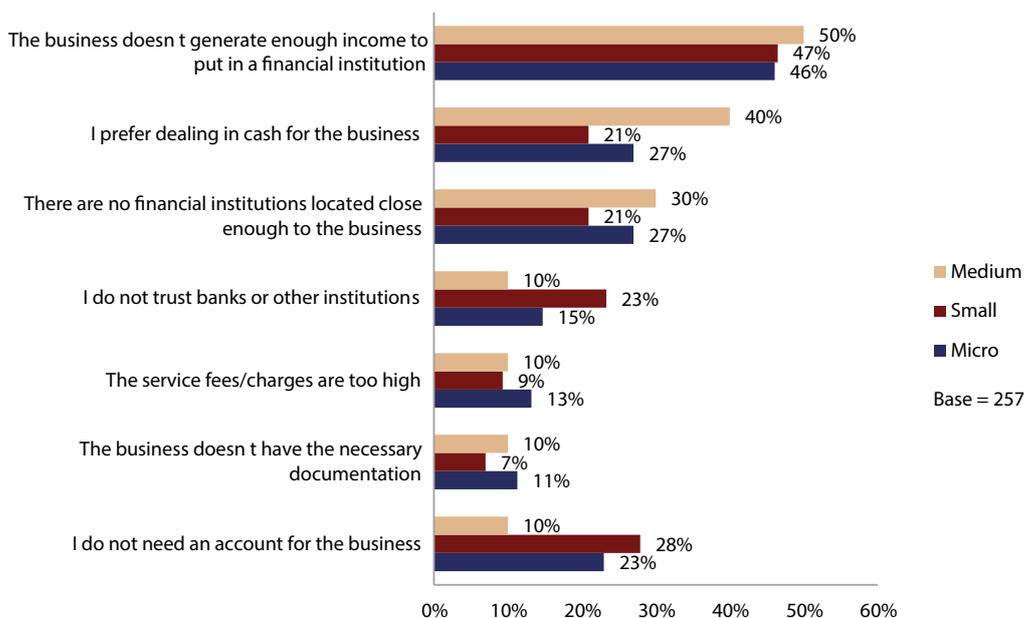


Figure 25: Reasons for not using financial services

### 3.3.19 Understanding of financial terms

To understand the extent of the MSME community's knowledge of financial terms, the questionnaire included a list of some commonly used financial terms to evaluate whether the MSME owners understood these terms or not. The terms that nearly all MSMEs understand include; 'bank' (99%), 'savings' (97%) and 'budget' (95%). Comprehension of 'Current Account' and 'Insurance' are not universal. Familiarity with the term 'turnover' is low at 57%. More complex financial terms such as 'factoring' are not widely known.

	Know what the word means %	Heard of it but don't know what it means %	Never heard of it %
Bank	99.7	0.3	0.0
Current Account	74.8	19.2	6.0
Insurance	79.4	17.8	2.8
Interest	92.0	6.9	1.1
Savings	97.0	2.8	0.3
Debt	89.3	8.5	2.2
Pension	79.0	16.7	4.4
Exchange rate	77.2	17.7	5.1
revenue	85.5	12.3	2.1
Working capital	90.4	6.6	3.0
Budget	94.8	4.7	0.5
Liquidity	52.4	23.8	23.8
Tax	95.3	4.2	0.4
Turnover	57.3	22.9	19.8
Collateral	75.3	12.2	12.5
Cash flow	75.5	15.2	9.4
Factoring	19.7	19.4	60.9

Table 24: Understanding of financial terms

## 3.4 MARKETS

### 3.4.1 Customer types

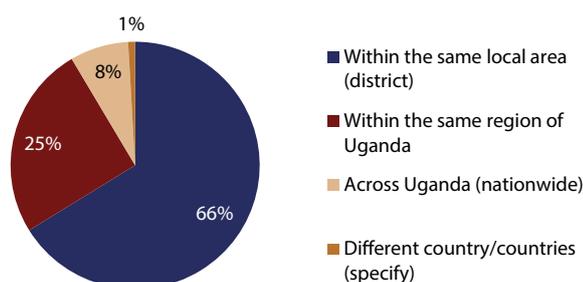
MSME owners explained that individuals, and not companies, are their main clients. This remains true even for medium-sized firms. For micro businesses, 82% of their clients are individuals; this is nearly identical (81%) for small businesses and stands only slightly lower at 74% for medium sized businesses. Medium sized enterprises are more likely to deal with larger enterprises and government institutions.

	Total %	Micro %	Small %	Medium %
Individuals	81.1	82.4	80.5	73.9
Other small businesses (less than 50 employees)	9.2	8.7	9.5	12.3
Other large businesses (more than 50 employees)	4.4	4.0	5.0	6.2
Other institutions e.g. schools, hospitals	2.1	2.5	0.9	1.4
Private out - grower schemes	1.2	1.0	2.1	0.9
Government	0.6	0.2	0.6	2.8
Foreign businesses	0.4	0.3	0.6	0.5
Co - operative	0.2	0.3	0.0	0.0
Other (general public)	0.8	0.6	0.9	1.9

**Table 25:** Main clients for business

### 3.4.2 Proximity to customers

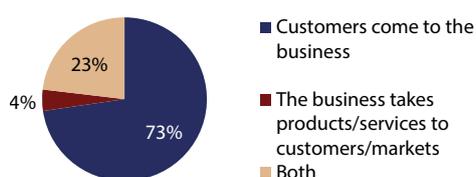
Two thirds (66%) of customers live within the same local area as their businesses, with a further quarter located within the same region. Only eight per cent of the customers are located across the country and one per cent from different countries. This pattern does not differ significantly by business size or by region.



**Figure 26:** Location of customers

### 3.4.3 Mode of delivery

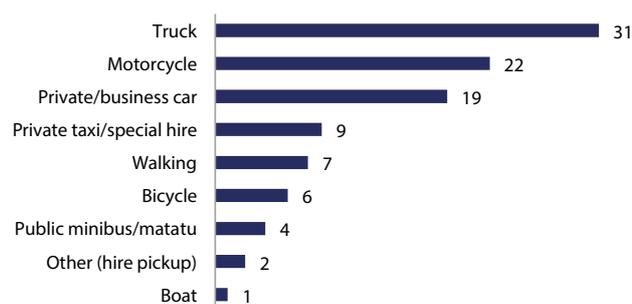
Nearly three out of four (73%) of customers visit the business to access the services and products of the firms.



**Figure 27:** Mode of delivery of businesses

The most commonly used means of transport include; trucks, private cars and motorcycle. Overall, 31% of customers use trucks to deliver what they purchase from the businesses, 22% use motorcycles and 19% use private cars.

For medium sized businesses, 36% of the clients use trucks to transport goods, while 27% use private cars and 15% use motorcycle.



**Figure 28:** Means of transport that customers use (%)

### 3.4.4 Connecting with suppliers

The most common way for companies to know about suppliers is through family and friends (63%) or word of mouth (54%); two responses that may overlap. Just under half hear about suppliers through business associates and less than a quarter through all other means.

	Total %	Micro %	Small %	Medium %
Friends and family	63	65	64	54
Word of mouth	54	54	50	54
Business associate	46	45	43	54
Newspaper or other publications	24	19	31	37
Television or radio	21	19	26	24
Internet	10	8	12	16
Trade fair	7	5		11
Billboard	3	3	4	6
Other (meeting, knowing each other)	1	1	1	2

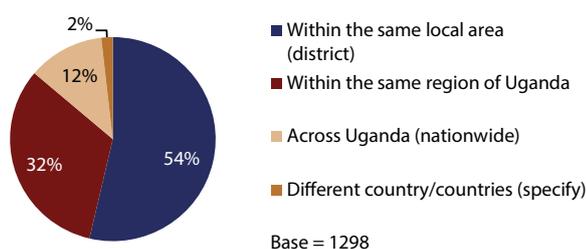
Base = 1298

**Table 26:** Knowledge about suppliers

## WORD OF MOUTH, AMONG FRIENDS AND FAMILY, DRIVES KEY RELATIONSHIPS, INCLUDING WITH SUPPLIERS

### 3.4.5 Location of suppliers

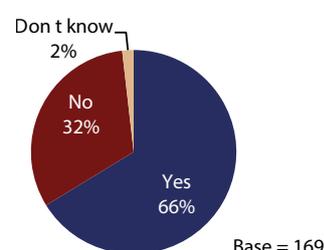
A majority (54%) of suppliers are located within the same local area as their clients. Nearly a third (32%) of suppliers for businesses are located within the same region, while 12 % of suppliers are located across Uganda and only 2% are from different countries (Figure 29). This applies to all businesses across sectors and by business size.



**Figure 29:** Location of most suppliers

### 3.4.6 Delays and losses in the supply chain over a period of one year

MSMEs tend not to experience delays in delivery from their suppliers. Overall, 86% of the businesses noted that they do not experience delays. This varies little across business type; 87% of the micro businesses noted that they do not experience delays from suppliers while 86% of the small and 83% of the medium-sized businesses said the same. A similar consistency is observed at the geographic level, it is only in the Eastern region where a slightly higher proportion of businesses (23%) noted that they experience delays in delivery.



**Figure 30:** Financial losses due to delays

For the minority who do suffer delays, two thirds incur financial losses as a result. As shown in Figure 30 below, businesses incur considerable financial losses due to delays caused by suppliers. For instance, small businesses incurred an average loss of USH. 20,600,000 from delays.

## 3.5 COMMUNICATION AND TECHNOLOGY

### 3.5.1 Mobiles phones

It is perhaps no surprise that mobile phones are the most common means of communicating across Uganda. Over 95% of micro, small and medium businesses use mobile phones for business related communications.

The most common reason for using a mobile phone is communicating with suppliers and customers (94%). The second most common reason is using the mobile phone for financial transactions e.g. sending or receiving money (45%). Around a third use mobiles to access business information (34%) and carry out marketing of products or services (26%).

### 3.5.2 Internet access

Only 37% of businesses have access to the internet. Analysis shows that internet penetration is very much tied to the size of business. While under a third of micro-sized businesses have access to internet (31%), close to half (45%) of small businesses do, but nearly two thirds (62%) of the medium sized businesses have internet access – double the proportion of the micro firms.

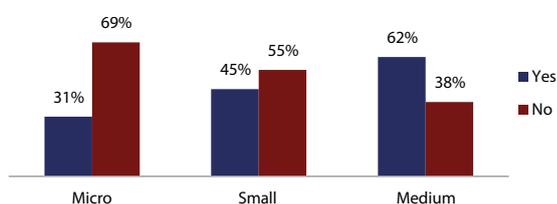


Figure 31: Internet access by business size

**MEDIUM MSMEs ARE TWICE AS LIKELY TO BE ONLINE AS THE MICRO MSMEs**

Some variation is also seen geographically. Regionally, half of all businesses in Kampala have access to the internet, but only just over a quarter (29%) have access in the Central region.

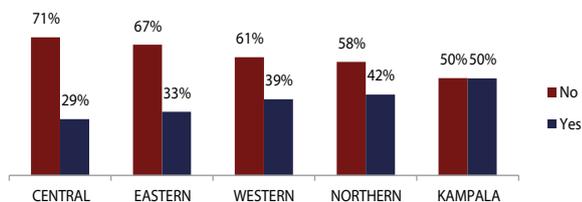


Figure 32: Internet access by region

### 3.5.3 Reasons for using the internet

The main purpose of using the internet is communication with suppliers (71%). Nearly as many businesses (68%) use the internet to access business information and a few (39%) use it to market their products (Figure 33).

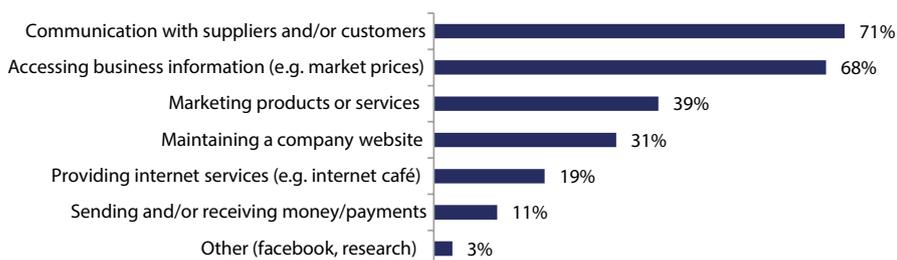


Figure 33: Purpose of internet in business

In terms of how the internet is accessed, mainly this happens on computers in the company's work environment. Nearly two thirds (62%) of businesses access the internet using their own computers, but still approaching a fifth (19%) use internet cafes. Only 14% use smart phones and tablets. This pattern of device usage was found to be relatively consistent across businesses, regardless of size and sector.

### 3.5.4 Other technology used

Beyond computers and mobile phones, MSMEs use other technology in their business operations. Social media (Facebook, Twitter etc) is used by over a fifth of businesses. With 32% of the medium-size MSMEs using it. Just over one in ten small and medium-sized firms expressed that they use project management tools.

	Total %	Micro %	Small %	Medium %
Use social media sites like Facebook, Twitter, Google, Pinterest, YouTube, etc. to promote your business, products and services	22	20	25	32
Use of project management and task management tools	9	8	13	14
Use of software for the business e.g. time tracking software	7	5	11	12
New or improved company website	6	4	9	12
New or improved hardware	5	4	6	10
Start a blog related to your business and target audience	4	4	3	6
Electronic invoicing	4	3	4	10
Tablets, iPads, Note-pads etc.	3	2	4	5
E-commerce (conducting sales online)	3	2	6	7
Use online budget tracking to keep on top of and reduce your expenses	3	2	4	6
File your taxes more efficiently online	3	3	4	9
Create a new income stream by selling your products online	2	1	2	3
Cloud services (virtual office, online data storage services, virtual staff)	2	1	3	5
Use video marketing	2	1	2	3
None	63	67	59	46

**Table 27:** Technology usage

## 3.6 INFRASTRUCTURE

### 3.6.1 Sources of Energy

Electricity from the public grid is the major source of energy for all businesses (58%), solar energy is used by only 2% of businesses. 36% of the businesses do not use energy for their businesses.

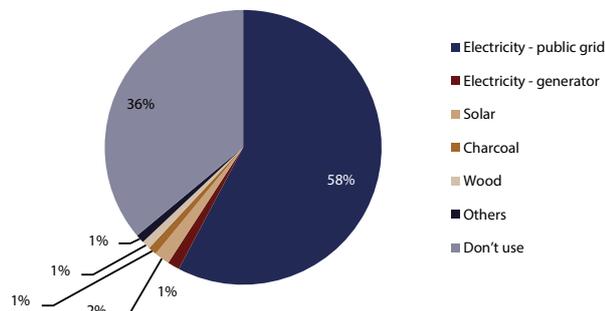


Figure 34: Main source of energy

### 3.6.2 Electricity

On average, only 60% of MSMEs have access to electricity. The overall range across sectors is very broad; from a high of 95% for information and communication to a low of 3% for fishing. 77% of medium sized businesses have access to electricity in comparison with 55% of the micro businesses.

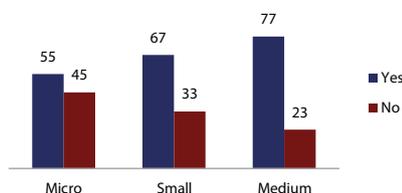


Figure 35: Access to electricity by business size

#### Access to electricity by region

Proximity to urban areas appears to have a bearing on access to electricity; more businesses based in Kampala (79%) have access to electricity, followed by the Eastern region (67%) and Western region where 59% of businesses have and use electricity in their businesses.

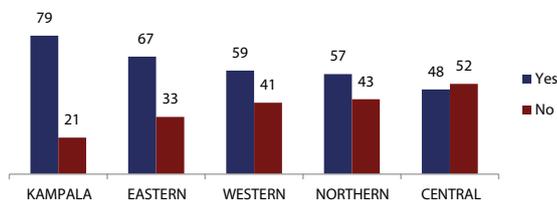


Figure 36: Access to electricity by region (%)

### 3.6.3 Power outages

Power outages are common and certainly affect businesses in all business sizes and regions. There is variation in the length of power outages, with 33% of businesses experiencing outages for more than five hours. The frequency of power outages is relatively high, with about 40% of the businesses experiencing more than 40 outages per year. Regionally, the Northern region experienced more outages, 65% of businesses experienced more than 41 outages, followed by Eastern region (55%).

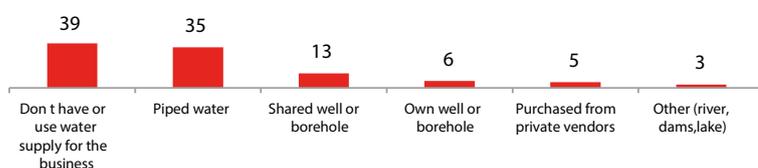
	Total %	Micro %	Small %	Medium %
None	15	14	16	17
1 - 10	22	23	23	14
11 - 40	25	25	22	29
41+	38	38	39	40

Base = 1103

Table 28: Public grid outages per year

### 3.6.4 Source of water for business

The main source of water for businesses is piped water (35%), but over one in ten rely on a shared well or borehole. 39% of the businesses do not use water in their businesses.



**Figure 37:** Source of water for business (%)

A high proportion of micro sized (45%) businesses do not use water in their businesses. 60% of medium-sized businesses use piped water, while 45% of the small sized and 29% of the micro sized businesses use piped water.

Half of businesses located in Kampala city used piped water for their businesses, followed by 40% in the Eastern region, 35% in the Western region and 28% in Central and Northern regions respectively.

Water shortage seems not to be a major problem among MSMEs in Uganda; 75% of the MSMEs do not experience shortage.

	Total %	Micro %	Small %	Medium %
None	75	79	69	61
1 - 10	13	11	17	18
11 - 40	7	7	7	9
41 - 100	4	3	5	10
101 - 200	1	0	2	2
200+	0	0	1	1

**Table 29:** Number of Days Experiencing Insufficient Water Supply

## 3.7 REGULATORY ENVIRONMENT

### 3.7.1 Incidence of registration

One in five MSMEs in Uganda admitted to not being registered. The MSMEs that are registered had done so mainly at the national government level (30%) or district level (37%). Registration is driven by a sense of legal responsibility. When asked why they are registered, a majority of MSMEs (87%) said they are registered because it is a legal requirement, while 26% noted that they register to gain access to customers who would only deal with registered entities. Out of the businesses that are not registered 51% have operated without licences while 49% have not run business without the registration documents.

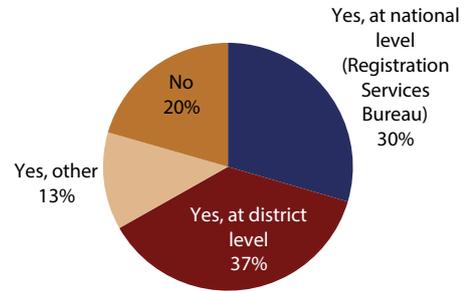


Figure 38: Registration of business

### 3.7.2 Reasons for non-registration

Reasons for non-registration are shown in Figure 39. Broadly, the data reveal two main reasons; concerns around the financial viability, and lack of understanding either that the business needs to be registered, or how to go about registering.

In terms of the financial perspective, over a third said that the business does not make enough money (35%), and over a fifth (21%) said that it would cost too much, and almost one in ten were honest enough to admit they wanted to avoid paying tax.

As far as the issue of understanding the process is concerned, the key issue is that a quarter or more don't know how to register (26%) or noted that the registration process is too complicated (25%).

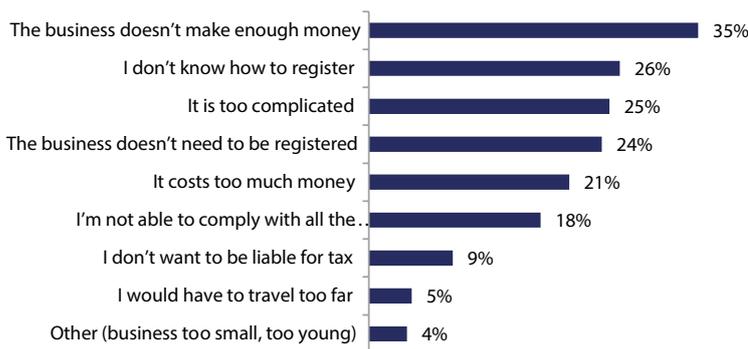


Figure 39: Reasons for non-registration of MSMEs

**NOT ALL MSMEs UNDERSTAND THAT REGISTRATION IS MANDATORY. ALSO, MANY DON'T KNOW HOW TO REGISTER OR PERCEIVE THE PROCESS TO BE TOO COMPLICATED**

### 3.7.3 National vs. local registration by size of MSME

The survey sought to explore the broader patterns of registration, including by business size. Figure 40 shows that non-registration is driven more by micro-businesses; it is four times more common among them than among medium-sized enterprises.

Medium sized business tend to be registered at national level, for small businesses the situation is quite balanced between national and local, while for micro businesses district level is far more common. Overall, 16% of micro businesses said they are registered in 'other' ways.

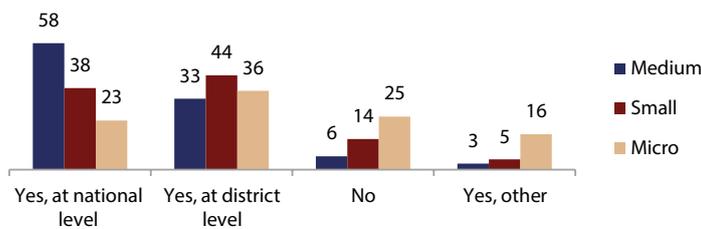


Figure 40: Registration of business by size

### 3.7.4 Registration of MSMEs by region

Registration was also explored on a geographic level. Businesses in the Northern region are more likely to be registered while those in Western region are less likely to be registered as shown in figure 41 below.

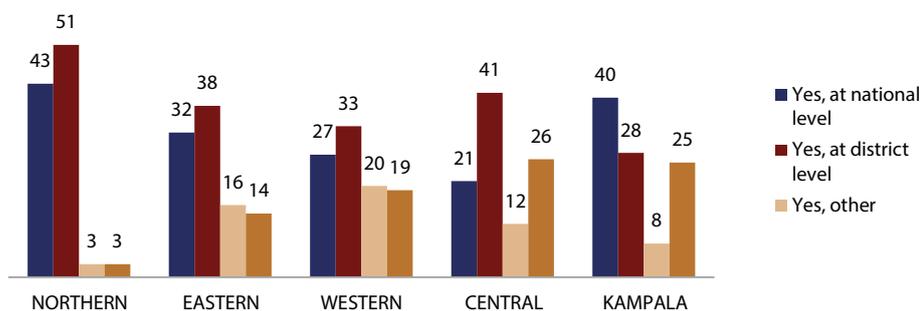


Figure 41: Registration of MSMEs by region

### 3.7.5 Tax

To be able to pay government taxes, a business is required to have a tax identification number. Among the MSMEs interviewed, only 25% of the businesses said they have a tax identification number (Figure 42). A similar picture is reflected by business size and by region.

More than half (51%) of the medium sized businesses have a tax identification numbers, compared with only 37% of small and 18% of micro businesses. Regionally, Kampala region leads in number of businesses with the tax identification number (38%), followed by Northern region (33%).

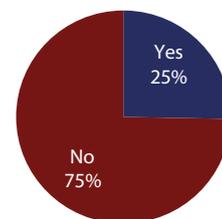
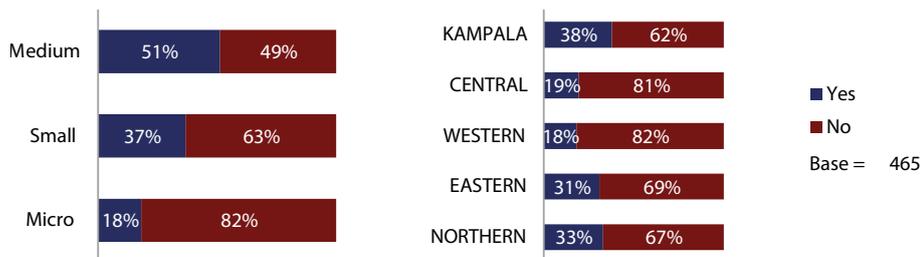
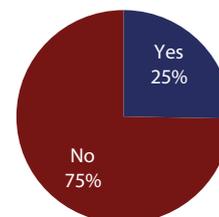


Figure 42: Tax identification number



**Figure 43:** Tax identification number by business size and region

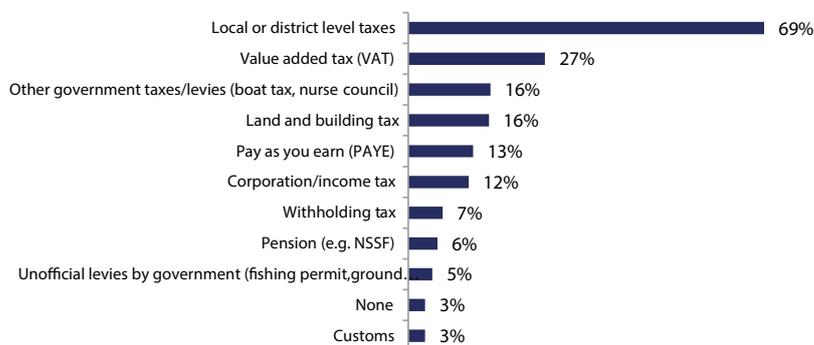
Among those businesses with a tax identification number, 92% said they paid business taxes in the last one year, while just 8% said they did not. This picture is similar across business sizes (92% of medium-sized businesses, 97% of small and 91% of micro businesses).



**Figure 44:** Payment of business taxes

### 3.7.6 Payments to Government

MSMEs make several forms on payments to government. These include; local and district level taxes which 69% of MSMEs claimed to pay, 27% of businesses pay Value Added Tax (VAT), and 16% of the pay other government levies and taxes such as boat taxes and membership fees to organizations such as the nurse council (Figure 45).



**Figure 45:** Payments to government made by businesses

Regionally, local or district level tax is the most common form of payment across regions with the Northern region leading with 93% of businesses paying this type of tax (Table 31).

	Northern	Eastern	Western	Central	Kampala
Local or district level taxes	93	66	79	63	58
Land and building tax	64	9	9	11	15
Value added tax (VAT)	27	45	17	19	41
Corporation/income tax	22	15	13	8	11
Pay as you earn (PAYE)	6	19	9	8	25
Withholding tax	4	13	9	3	8
Pension (e.g. NSSF)	1	9	4	5	9
Other government taxes/levies (boat tax, nurse council)	1	10	8	23	25
Customs	0	10	2	1	6
Unofficial levies by government (fishing permit, ground rate)	0	3	2	9	4
None	0	4	3	4	3

**Table 30:** Type of tax per region

### 3.7.7 Non-payment of tax

MSMEs who had not paid taxes were asked why this was the case. The clearest answer was that the taxes are too high for their businesses to afford (32% saying this). The same proportion pointed to 'other' reasons which included paying local tax, not being aware of the need to pay tax, and that nobody comes to collect the tax. About one in five claimed they did not pay because the business did not earn enough to require them to do so.

	Total	Micro	Small	Medium
	%	%	%	%
Tax rates are too high	32	32	32	31
Other (pay local tax, not aware, nobody comes for tax)	32	30	36	44
Revenues are below the taxable level	19	22	15	9
Difficulty filling in the tax return forms	3	2	5	3
See no need for paying taxes	7	9	4	4
I am exempted from tax	6	5	9	9

**Table 31:** Reasons for non-payment of tax (%)

### 3.7.8 Priorities for Government support

Responses show that the MSME community believes that government should give priority to providing access to finance. Echoing their responses about constraints (see Section 3.9), nearly three out of every four business owners (74%) stated that access to finance is the most important priority, this was followed by providing and improving infrastructure (62%), providing business services such as information and consulting (46%), security (45%) and accommodative tax policy (39%).

	Total	Micro	Small	Medium
Providing business services (e.g. information, consulting)	46	45	51	47
Providing access to finance	74	76	66	69
Providing/improving infrastructure (e.g. energy, roads, water)	62	61	64	68
Security	45	45	43	41
Accommodative policy and tax system	39	3	38	46
Improving skills and training	35	33	37	39
Providing better health services for workers	29	29	3	30
Minimizing regulations and bureaucracy	22	19	27	29
Other (pay boat tax, pay trade license)	3	3	3	2
None	2	2	3	1

**Table 32:** Most important government priorities (%)

Responses were found to vary little across regions. However finance is not the first consideration in every single region. In the Northern region, the first expectation of government relates to providing and improving infrastructure (72%), closely followed by providing business services (71%). In all other regions finance is seen as the priority ahead of infrastructure, and the demand for greater finance is heard loudest in the Eastern region where it is seen as a priority for (85%) of MSME business owners. Across sectors, access to finance is felt most keenly by the forestry sector (88%) while 81% of businesses in the agriculture sector gave the same recommendation.

Most important priorities for government support	Northern	Eastern	Western	Central	Kampala
Providing/improving infrastructure (e.g. energy, roads, water)	72	65	55	66	58
Providing business services (e.g. information, consulting)	71	51	34	45	49
Providing access to finance	53	85	74	75	73
Accommodative policy and tax system	51	39	35	37	43
Security	21	52	39	51	45
Minimizing regulations and bureaucracy	13	19	9	24	40
Improving skills and training	12	36	37	36	39
Providing better health services for workers	9	31	18	35	42
Other (pay boat tax, pay trade license)	0	1	4	4	1
None	1	0	4	3	2

**Table 33:** Priorities for government support

## 3.8 INNOVATION AND BUSINESS GROWTH

### 3.8.1 Monthly Sales

Comparing sales of 2013 with sales of 2014, only micro firms reported more decrease than increase. 38% of micro firms reported decrease while 30% of the same businesses size recorded increase in sales. 43% of medium sized businesses reported an increase in sale while 39% of the small sized businesses reported the same..

The two sectors with the highest proportion reporting an increase in sales were the utilities sector (57%) and financial sector (45%). In contrast, over half (57%) of businesses in the mining sector noted that their monthly sales had decreased.

	Increased %	Decreased %	Stayed the same %	Don't know %
Micro	30	38	21	12
Small	39	29	19	14
Medium	43	28	17	11%
Accommodation	34	26	23	16
Agriculture	34	38	18	11
Construction	37	34	16	13
Education & health	35	27	24	15
Financial	45	25	22	8
Fishing	39	3	18	9
Food processing	30	34	23	13
Forestry	38	25	13	25
Information & communication	32	41	18	9
Mining	20	57	20	3
Other manufacturing	31	34	25	10
Real estate	28	40	11	21
Recreation & personal	32	37	20	12
Trading	32	43	1	11
Transport & storage	29	40	18	13
Utilities	57	43	0	0
Base = 641				

**Table 34:** Monthly sales for March 2013 vs March 2014 by business size and sector

Medium sized businesses had a high average net income as compared to the small and micro sized businesses, this is obviously attributed to the size of the business.

	Income (000s)
Micro	830
Small	3,890
Medium	114,360
Accommodation	1,140
Agriculture	970
Construction	3,720
Education & health	76,470
Financial	4,710
Fishing	780
Food processing	1,120
Forestry	430
Information & communication	1,040
Mining	660
Other manufacturing	990
Real estate	3,310
Recreation & personal	780
Trading	7,020
Transport & storage	14,090
Utilities	4,350
<b>Average</b>	<b>12,020</b>
Base = 1839	

**Table 35:** Net income of businesses by Business size and Sector

Echoing the responses for sales (Table 36), only among the micro firms did more say that they had seen a decrease in their sales than an increase in profits between 2013 and 2014. 36% of the medium sized businesses had experienced an increase in profits across the two years.

	Increased	Decreased	Stayed the same	Don't know
	%	%	%	%
Micro	28	35	20	16
Small	34	29	18	19
Medium	36	29	18	17
Accommodation	30	28	21	21
Agriculture	28	34	19	19
Construction	37	37	16	11
Education & health	30	28	23	19
Financial	43	24	21	13
Fishing	36	33	15	15
Food processing	27	39	18	16
Forestry	25	25	25	25
Information communication	23	38	29	10
Mining	14	49	26	11
Other manufacturing	33	30	24	14
Real estate	28	35	12	25
Recreation & personal	27	37	19	17
Trading	33	39	11	17
Transport & storage	28	36	16	20
Utilities	57	43	0	0
Average	30	33	20	17

Table 36: Comparison of Profits (February 2014 and March 2014)

### 3.8.2 Investments

Few businesses reported making investments in the previous year, in 2014, with only 25% of businesses invested in machinery, 18% in land and buildings and 10% in human capital such as training for staff.

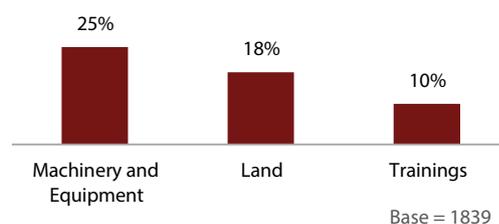


Figure 46: Investment of assets

MSMEs have invested in more machinery and equipment. 37% of medium sized businesses have invested in machinery and equipment as compared to land (25%) and trainings (21%).

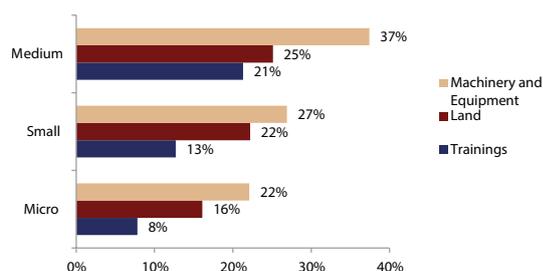


Figure 47: Investment in assets by business size

Businesses have invested an average of USH. 33,770,000 in machinery and equipment and an average of USH. 1,820,000 in trainings and human capital.

Medium sized businesses have invested considerably more in land and buildings compared to small and micro-sized businesses (Figure 49).

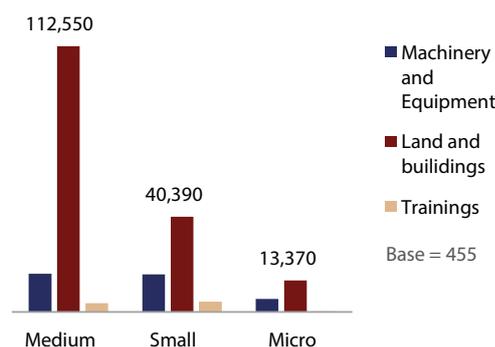


Figure 48: Value of Investment by Business Size (US\$. '000s)

A minority of MSMEs have invested in innovative product and services. Only 26% of the MSMEs interviewed had done so.

Medium sized businesses are more likely to have invested in innovative products and services compared to small and micro sized businesses. Over a third (37%) of medium-sized businesses have invested in innovative products and services while 32% and 23% of the small and micro sized businesses have done so.

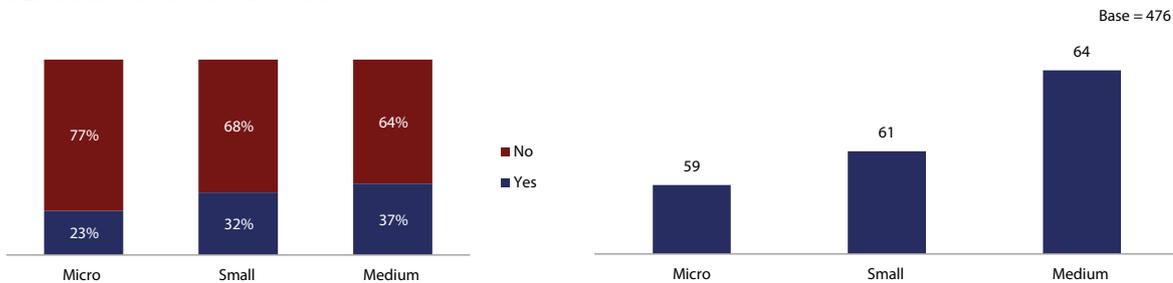


Figure 49: Use of Innovative Product and Services by Size

Figure 50: Proportion of sales from innovative product and service (%)

By sector, the recreation and entertainment sectors have benefited more from using innovative products and services according to the proportion (73%) of total sales reported in Figure 52.

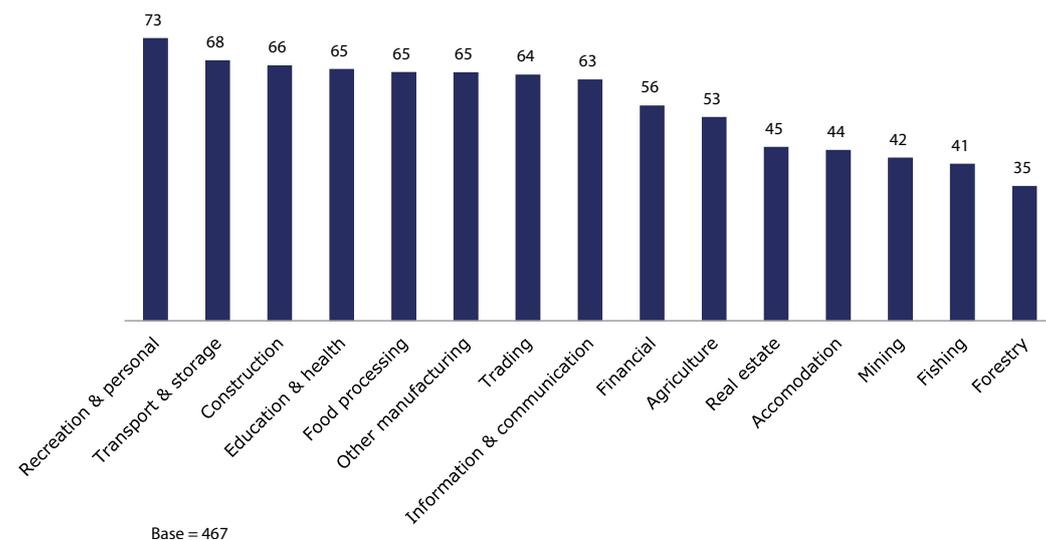


Figure 51: Proportion of Sales from Innovative Product and Service by Sector

When asked why they had invested in innovative products and services, MSMEs explained that it was because they thought it would help boost the business.

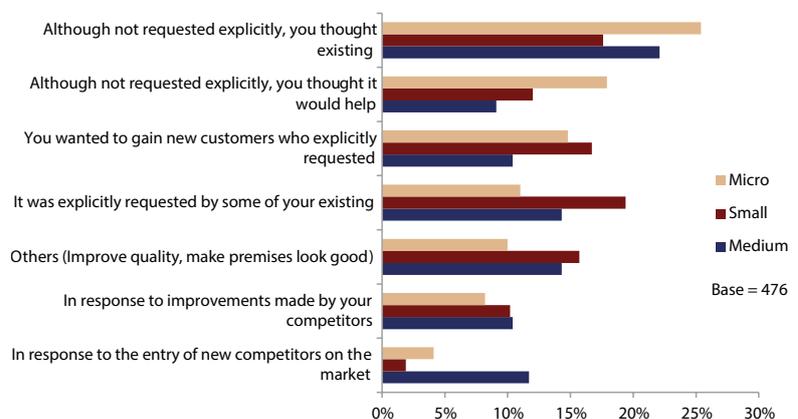


Figure 52: Reasons for developing innovative product and services

### 3.9 PERCEIVED CONSTRAINTS TO DOING BUSINESS

MSMEs were asked in detail about the challenges they face when conducting business, as this was one of the core objectives of this research. Table 40, below, shows that finance is the driving concern for business owners, both in terms of access and cost.

Beyond this, taxation was the only other aspect which more than two-thirds felt was a constraint (and tax administration was also mentioned by nearly half of the sample).

Two aspects of infrastructure (roads, electricity) were mentioned by a majority of the respondents. Over half also pointed to the macroeconomic environment and access to land, and corruption.

Between a quarter and a third also saw transportation, business license and permits, crime, marketing, acquisition of machinery, standardization as constraints.

Obstacles	%
Access to finance (e.g. availability of collateral)	74.3
Cost of finance (e.g. interest rates)	73.2
Tax rates	67.2
Roads	58.7
Electricity	56.5
Macroeconomic environment (e.g. inflation, exchange rates)	54.4
Access to land for expansion/relocation	52.6
Corruption	50.3
Tax administration	49.1
Transportation	48.0
Business licensing and permits	44.5
Crime	43.5
Marketing of SME products	42.3
Machinery and other tech	40.2
Standardization	36.3
Political environment	32.9
Telecommunications	31.4
Inadequately qualified workforce	30.3
Customs and trade regulations	28.5
Training and BDS	26.8
ICT	24.0
Labour regulations	19.1

**Table 37:** Obstacles to Doing Business

**FINANCE IS THE MAIN CONSTRAINT TO GROWTH FOR UGANDAN MSMEs; BOTH IN TERMS OF ACCESS AND COST, WITH TAX AND INFRASTRUCTURE ALSO MAJOR OBSTACLES**

## 4 CONCLUSIONS

Findings from this study clearly demonstrate that limited access to finance is a major constraint to MSME's growth and development. A large proportion of MSMEs used their own funds to finance start-ups because they could not access finance. Some of the reasons for limited access to finance include collateral burden, high cost of finance (interest rates) and legal requirements such as having tax identification numbers (TINs). Findings indicate that only 25% of MSMEs studied have TINs, which is a clear indicator that most are not able to meet the legal requirements by financial institutions for accessing loans. There is an opportunity for the government and relevant stakeholders to come up with sensitization training packages in collaboration with the Uganda Revenue Authority on the importance of TINs. Furthermore, 20% of MSMEs are not registered and therefore do not have access to services that are dependent on the availability of legal documents.

Infrastructure was identified as another major challenge that hinders MSME growth in Uganda. Poor roads have hindered access to markets and also increased transportation costs. Lack of electricity and high power outages also hinder operations. The low level of internet access in the Central region, whose access levels is almost half of Kampala and this makes it a major problem.

Another key finding was that MSME ownership is dominated by men (76%). Effort could be made to encourage female participation in smaller businesses. This might be done through setting up facilities that help develop a better enabling environment and funding incentives for women and youth.

Legal ownership of businesses is achieved mainly through sole proprietorships which are dominant especially among the micro sized businesses. Sole proprietorships reduce bureaucracy leading to efficiency but at the risk of a lack of accountability. There is an opportunity for donors to intervene especially at micro-enterprise level by providing tailor-made capacity building opportunities to this group in areas such as financial management.

All regions demonstrate some unique characteristics. The agriculture sector is particularly prevalent in Central region. Trading enterprises are far more common in Kampala than in other regions. In terms of size and composition, the Northern region is dominated by small companies. Companies in the Western regions are significantly more likely to have ever taken out a loan and the average outstanding loan value is far greater than any other region. The Eastern region is more susceptible to delivery delays and financial losses. It is conceivable that this is a reflection of the infrastructural development in Uganda. Kampala's greater infrastructural development (such as internet access) is reflected in the data and this suggests a competitive advantage.

MSMEs have not embraced associations; only 15% of the enterprises belong to one. Association membership is very much related to business size, and is driven by interest in networking and customers. This can be an opportunity for the public sector and funders to implement programs that create awareness of the importance of collective action. Microfinance institutions can be used to encourage collective action and formation of savings and lending groups that small and micro enterprises can use to access finance and capital for their enterprises.

MSMEs demonstrate reasonable openness and success in relation to introducing innovative products and services. Overall, 26% of enterprises have introduced innovative products and services to meet the changing demand, and these businesses have increased their sales by an average of 60% as a result. There is therefore an opportunity for funders and the government to develop innovation platforms by for example giving incentives to innovators. This will encourage entrepreneurs to identify and select innovations that bring efficiency in their operations and also reduce costs.







**FSD Africa** is a programme that promotes financial sector development across sub-Saharan Africa. Based in Nairobi, Its goal is to reduce poverty. It achieves this by supporting initiatives to improve financial inclusion and by helping financial institutions and markets drive economic growth. FSD Africa funded this survey. <http://www.fsdafrica.org/>



**FSD Uganda** is a financial sector deepening trust set up by DFID in Uganda. Its goal is to contribute to poverty reduction by making financial market systems work better for the poor. It is headquartered in Kampala. FSD Uganda is the host of this survey and the data set, and the point of contact for any enquiries. <http://www.fsduganda.or.ug/>



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