

How to speed up the adoption of e-commerce by MSMEs in Uganda.

Executive Summary

The COVID-19 outbreak and its associated containment measures significantly impacted business operations worldwide. The pandemic containment measures led to an inevitable upsurge in e-commerce adoption. Most MSMEs in Uganda could not adopt e-commerce due to a lack of preparation, the high cost of gadgets and internet, and a fear of being discovered by the taxman and cyber-attacks. Therefore, it's important to increase people's capacity to use digital technologies for business, ensure affordability, and raise knowledge of the benefits of e-commerce.



E-commerce boomed during the COVID-19 pandemic and remains more critical than ever.

The COVID-19 pandemic and its associated containment measures led to an inevitable upsurge in e-commerce adoption worldwide. Online shopping became the go-to option for many consumers due to government-imposed travel restrictions and the fear of contracting coronavirus in public places like markets and shops. The transactions would be made online, eliminating the need for the seller and purchaser to meet in person. Cash on delivery was also an alternative for consumers who wanted to ensure they had received the ordered product or service before making the payment. This new normal hit some businesses hard, especially the Micro, Small, and Medium Enterprises (MSMEs) that could not swiftly adapt and go digital to reach many customers online.

Even when COVID-19 is no longer a public health threat, consumers and businesses increasingly use e-commerce. This implies that businesses that open their physical premises and wait for only walk-in customers are missing out on an extensive

online market. Customers nowadays first go online, check the products they want, and either order online or visit the shop physically to make the payment and pick them up. Although the potential of e-commerce is not vibrantly stressed in the MSME Policy 2015, the National ICT Policy 2014 stresses a need to support MSMEs to take on e-commerce to foster their growth, economic growth, and employment creation. This calls for understanding the level of e-commerce readiness among MSMEs and the existing barriers to e-commerce adoption.

This brief is an excerpt of the quantitative study carried out in 2021 by the Economic Policy Research Centre (EPRC), with support from the International Development Research Centre (IDRC) Canada on “*The Socio-Economic Impact of COVID-19 on Business Enterprises in Uganda: Evidence from Micro, Small and Medium-sized Enterprises (MSMEs)*”, focusing on MSMEs from three sectors of manufacturing, hospitality (tourism), and education. The brief also utilises qualitative primary data collected through Key Informant Interviews (KIIs) carried out in purposively selected regional locations – Gulu City in Northern Uganda, Kampala metropolitan area in central Uganda; Mbale District in Eastern Uganda; and Mbarara District in Southwestern

Uganda to complement the quantitative survey.

Evidence indicates that:

Micro enterprises are not ready to adopt e-commerce (Figure 1). This can be attributed to the limited financial capacity of these enterprises to acquire digital devices like smartphones and pay for the internet, in addition to limited digital skills to do business online. A female KII participant argued that e-commerce only works for larger enterprises, as she put it:

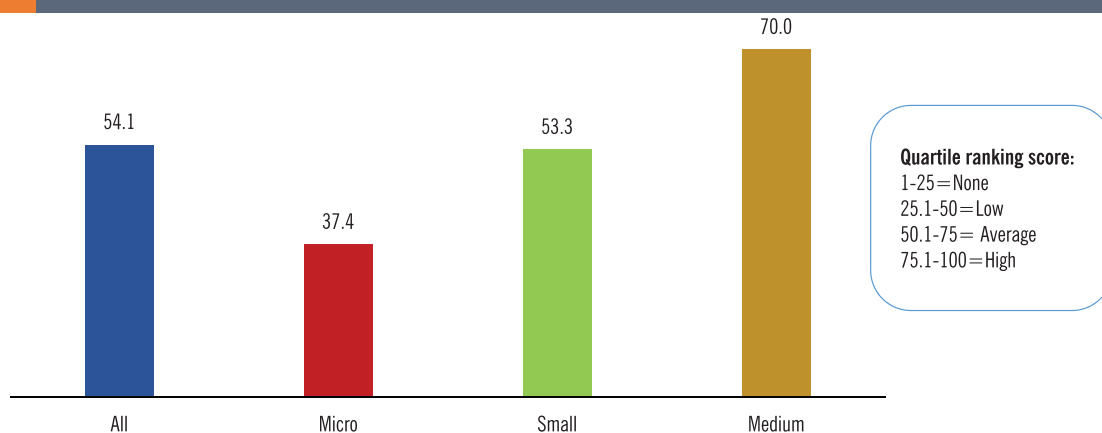
“... e-commerce is for businesswomen and men in the arcades [big shopping malls] that can afford smartphones and computers, not for us women here in Kawempe and Kalerwe markets. We don’t even have smartphones; see my “Katoki”-feature phone. So, tell me, how can I get online without a smartphone? ...” (A female KII, Kawempe, Kampala, 2023).

Enterprises across all sectors are not ready to adopt e-commerce (Figure 2). Schools in the education sector lack tools for e-learning, teachers have limited capacity to conduct

online classes, internet connectivity poses challenges in most parts of the country, and most parents and pupils cannot afford digital learning requirements as evidenced after the closure of schools. This can be attributed to the low level of e-commerce readiness in the education sector. Similarly, the level of readiness for e-commerce adoption is low among manufacturing firms because they prefer to deal with clients physically, which involves negotiations until an agreement is reached. In the tourism sector, e-commerce readiness is also low, and adoption is piecemeal, especially by enterprises in the food industry enrolled on digital apps like Jumia Food and Glovo, where they can receive orders online and deliver to clients. A KII participant from a tourism enterprise narrated that:

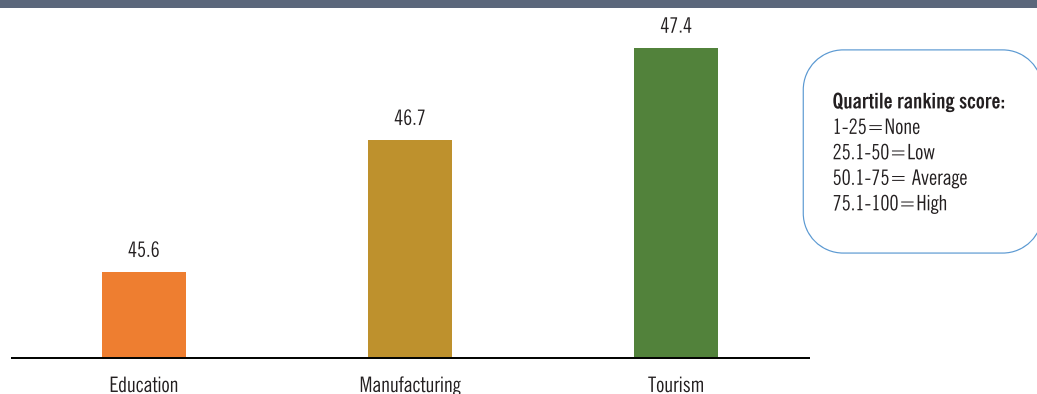
“... as a hotel, we make more money when the client is physically here. He/she may have come for a cup of tea but then ends up buying more stuff. That is why we prioritise customer care. If he/she meets their friends, they can easily buy for them while here, which is not the case when ordering online...” (A male KII, Kampala, 2023).

Figure 1 Microenterprises have a low level of readiness to adopt e-commerce



Source: MSME survey data. MSME policy 2015 definition with employment component used to classify MSMEs: Micro=Less than 5, Small=5 – 49, and Medium= 50 – 100.

Figure 2 Enterprises across all sectors have a low level of readiness to adopt e-commerce



Source: MSME survey data. MSME policy 2015 definition with employment component used to classify MSMEs: Micro=Less than 5, Small=5 – 49, and Medium= 50 – 100.

The high cost of digital devices hinders MSME digitalisation. Owning a good smartphone that can allow for a stable internet connection and take good quality pictures to upload is essential for doing business online. However, most enterprises, especially micro and small enterprises, cannot afford such smartphones. This is worsened by the high cost of data and the fast rate at which it gets used up, thus limiting many businesses from going online. KII participants narrated that:

“...smartphones are expensive for us, and data bundles are expensive also. You have to spend like 5,000 every day to keep online. Where do you get that money from this business you see...” (A male KII, Gulu 2023),

“... imagine you buy data, and before you know, you see a message that you have used 100% of your data bundle, and then when you don't go online, the data expires. Where does it go?” (A female KII, Kampala, 2023).

MSMEs believe that going digital exposes them to the taxman, Uganda Revenue Authority (URA) and cyber-attacks. Most MSMEs seemed to be unaware of the opportunities presented by going online. Instead, they associate digitalisation with exposure to URA and fraudsters, as stated by the KII participants:

“...imagine, the URA team comes here, and you show them everything, but they give you a high tax bill... You wonder where it is coming from; they don't want to listen and simply tell you to go to court. Imagine if we go online, it will be worse” (A male KII, Kampala, 2023).

“...when you are online, and they steal you, where do you report, and how do you get back your money? I believe the “bafere”-fraudsters get our contacts from online sites like Facebook. They may steal us more after getting details of our businesses online” (A Male KII, Mbarara 2023).

What is the way forward?

In summary, the COVID-19 pandemic underscored the necessity for MSMEs to embrace e-commerce as an essential tool for keeping afloat and thriving in an ever-changing business landscape. This e-commerce adoption trend is likely to continue even beyond the pandemic. Therefore, the government must support MSMEs to embrace e-commerce in the recovery journey by:

- **Strengthening MSMEs' capacity to use digital technologies for business.** There is a need for hands-on training for MSMEs on how to use different online platforms for business, for instance, creating an account, uploading pictures, viewing and accepting orders, and making online transactions. The training should be tailored to sectors and sizes of businesses to be more effective, since they are at different levels of e-commerce readiness.
- **Making digital gadgets affordable for business operators.** This can be achieved through a particular smartphone' subsidy for MSMEs. Additionally, the government should work with telecom companies to lower the cost of data by developing special packages or bundles for MSMEs. The government needs to ensure that data does not expire to prevent frustrating businesses.
- **Creating awareness about e-commerce opportunities.** MSMEs ought to know that there is a big market online that they can only reach by going digital. Otherwise, if the business keeps only the physical premises open waiting for walk-in customers, they may be out-competed by another business that not only opens the physical premises but also has an online presence. Awareness campaigns can demystify the phobia of going online to avoid being exposed to URA and the fear of cyber-attacks.

Recent Policy Briefs

"Diabetes costs the Ugandan Government and households UGX 2.2 trillion annually."
Issue No. 165, August 2023
Madina M. Guloba, Blessing Atwine and Pauline Nakitende

"Is restricting child-directed marketing of unhealthy foods and drinks in Uganda feasible?"
Issue No. 164, August 2023
Mary. M. Kajumba, Blessing Atwine, and Madina M. Guloba

"Is the adoption of front-of-pack labelling for food products legally and politically feasible for Uganda?"
Issue No. 163, August 2023
Blessing Atwine, Mary Kajumba and Madina M. Guloba

About the Authors

Smartson Ainomugisha is a Volunteer Research Associate at the Economic Policy Research Centre, Kampala, Uganda.

The views expressed in this publication are those of the authors and do not necessarily represent the views of the Economic Policy Research Centre (EPRC) or its management.

Copyright © 2023

Economic Policy Research Centre

The Economic Policy Research Centre (EPRC) is an autonomous not-for-profit organization established in 1993 with a mission to foster sustainable growth and development in Uganda through advancement of research –based knowledge and policy analysis.

Learn more at:



www.eprcug.org



[TWITTER:@EPRC_official](https://twitter.com/EPRC_official)



www.facebook.com/EPRCUGanda



eprcug.org/blog

Address:

Economic Policy Research Centre
51, Pool Road, Makerere University Campus,
P. O. Box 7841 Kampala, Uganda
Tel: +256414541023/4 Fax: +256414541022
Email: eprc@eprcug.org, Website: www.eprc.or.ug