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The Financing of Small-Scale Enterprises in Uganda

GEORGE R. BOSA

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Preface

In this study an attempt has been made to analyse problems of small enterprises in Uganda, and to describe measures already undertaken and those which could be undertaken to mitigate some of these problems. But as in economic growth, emphasis on what constitutes the main problems of small-scale enterprise is largely a matter of personal choice since the matters to be studied are so closely inter-related. This study concentrates primarily upon the financial problems facing small enterprises in Uganda.

The main purpose of the study is to present a comprehensive survey of the main sources of funds available to small enterprises in Uganda and the problems and difficulties encountered by the small firm in these fields. The study is compounded of two elements. First, an effort has been made to draw upon the knowledge and experience of financial institutions which have taken special measures to meet the special financial problems facing the small firm in Uganda. Second, research was concentrated upon the results of a survey which was undertaken during the course of the study to determine the financial and other problems of small firms in Uganda.

I am indebted to many people for help and guidance: my colleagues at the Institute, government officials and officials of other institutions and the many small businessmen without whose help and co-operation this study would have been well nigh impossible. But they are too many to mention them all here by name. However, my special acknowledgement is due to officials of the former Uganda Credit and Savings Bank, officials of the Development Division and the former African Business Promotion of the Uganda Development Corporation, and officials of the Ministry of Commerce and Industry. Special acknowledgement is also due to my three assistants: Miss A. Rehman and Messrs. L. Kyeyune and S. Lunyigo who carried out the tiring task of conducting a survey with great patience and enthusiasm.

I am specially indebted to Mr. W. T. Newlyn under whose perceptive and interested guidance this study was prepared. He contributed invaluable criticisms and suggestions.

However, any errors of fact or of reasoning are solely the responsibility of the author.

Finally, I am indebted to my wife Kamni who helped me cheerfully and efficiently with tables, scissors and paste.

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GEORGE R. BOSA

Makerere University College,
March, 1967.

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This study analyses financial problems which beset small enterprises in Uganda. For outside agriculture, it is the small enterprise which offers the only form of economic activity in which the indigenous people of Uganda primarily engage. Moreover, Africanization is one of the basic policy objectives in this country. Hence the interests of the study are not only economic but political as well. In fact, in many instances, small enterprise will here be used synonymously with African enterprise.

Definition of Small-Scale Enterprise

Though in order to have a reasonable base of discussion, a definition of the term "small-scale enterprise" is necessary, there is no one single measure of small-scale enterprise which is perfectly satisfactory. Even the concept of "small-scale industry" also

> "lacks precision and its definition varies from country to country — at times, from agency to agency in the same country — according to the amount or type of capital or assets of the industry, the number of its employees, the volume or value of its output or any combination of these criteria. In practice, there is little need for a commonly agreed definition, as the choice or combination of criteria would vary with the end pursued; thus a definition of small-scale industry for fiscal purposes — for example, to determine tax rates, exemptions or abatements — need not be identical with that establishing eligibility for membership in an organization, such as a co-operative association."[1]

For the purposes of this study, however, the expression "small-scale enterprise" is preferable to "small-scale industries" because manufacturing enterprises, as well as personal servicing firms, retail and wholesale trading, transport and distributive enterprises, play a very important role in developing countries. After all, the distribution of African enterprises outside agriculture reflects the relative capital and skills required for various types of economic activity. By far the greatest number of African enterprises are in retail distribution which, along with service trades, requires the smallest capital, makes the simplest demands on technical and managerial capabilities, and is closest to traditional occupations. In Uganda alone, for instance, there are estimated to be some 18,000 licensed and unlicensed retailers. Such a profusion of small entrepreneurs is a feature of most developing countries though these traders are often too many for their ventures to be profitable.

Nevertheless entrepreneurship itself signifies three things. In the first place it signifies the ability to imagine and perceive a chance of profit and to convince oneself of its reality; in the second place, it involves the capacity and willingness to realize this chance by means of a project; and third and most important, it involves a wish to make a profit, but also an awareness of the responsibility for failure and the chance to lose the property linked to the project, or briefly: the readiness to risk one's own fortune for the chance of making profits.

A small enterprise will therefore be understood to be an undertaking for the purpose of profit and conducted on a whole time basis. Hence this study will not include handicraft and cottage industries, whose problems are unlike those of small factory enterprise, since their operations are not entirely motivated by purely economic considerations. Nor will the study include agricultural enterprises whose financial problems are the subject of study elsewhere.[2]

In functional terms, small-scale enterprise is often identifiable with a number of such characteristics as lack of specialization in organization and management, close personal contact between the manager and clients of the business, lack of access to capital markets, lack of dominant position in the market, and a relatively close integration with the local community. The manager of a small-scale enterprise is often his own production, purchasing, marketing, finance and personnel expert, as well as expert in any other aspects of the undertaking. He often has a close personal contact not only with his employees but also with his customers, suppliers and owners — though ownership and management are often identical. These and other characteristics often offer a handy method of identifying small businesses whether in developed or developing countries.

However, since size is a major factor in this study, and since it is often desirable to make some sort of statistical — especially international — comparisons, a quantitative definition is clearly called for. And for comparative purposes, it is the employment measure which has invariably been selected in most countries as the most suitable measure of size. Such other measures as productivity, output, value added, etc., usually have to be abandoned since institutional factors in various countries have such a marked influence on production functions.

In many under-developed countries a small-scale enterprise is usually defined as one employing fewer than one hundred workers. In Uganda, however, small-scale enterprise is very small indeed. In a survey which was carried out during the course of this study, it was found useful to include, unless otherwise specified, only those firms employing fewer than fifty people. But since this is a study on finance, it was also found useful to define small enterprises in financial terms.

The category of small enterprises was therefore limited to enterprises with a capital investment of less than £50,000.

The Role and Importance of Small Enterprises

At first glance the role of small enterprises in a context of developing countries calling for rapid industrialization may seem obscure beside big industrial projects running into several millions of pounds. However, at a second glance and in the course of everyday experience one becomes aware that for every large factory there are hundreds of small workshops making furniture and other wooden articles, pottery, shoes, repairing bicycles, making clothes, lamps, burning charcoal, boiling soap, or a host of other commercial, transport or personal service activities. Even in developed countries, where big firms have tended to grow continually bigger, small firms have continued to exist and set up in business. Thus, of the 4,755,000 businesses which were accounted for in the United States in 1953 when the Small Business Administration was first set up, 95 per cent, or more than 4,500,000 businesses were small businesses.[3] Though these figures included some businesses emloying 250[4] workers, in 1958 the Census of Manufacturers showed that out of a total of nearly 300,000 manufacturing establishments, only 26,500 establishments employed more than 99 employees.[5] Again, as far as manufacturing industries are concerned, this level of incidence of small units — employing less than 100 workers — has been observed to be almost universal in developed or developing countries. Thus, the proportion is 89 per cent in West Germany, 91 per cent in Puerto Rico, 95 per cent in the United Kingdom, 97 per cent in Australia and 99 per cent in Japan.[6]

In Uganda, out of 3,440 private firms accounted for in 1965, more than 92 per cent or 3,168 firms employed 100 workers or less (see Table 1.1). These firms employed 32 per cent or 46,941 workers out of a total employment of 146,694 workers. In terms of estimated annual cash wage bill, these firms were responsible for 38.6 per cent or £9,336,000 out of a total cash wage bill of £24,236,000.

In terms of employment, this state of affairs is not radically different from that of highly industrialized countries. In manufacturing industries in Japan, small units employ 34 per cent of the total work force,[7] and in the United States[8] and West Germany,[9] the proportion is around 27 per cent.

Thus whatever interpretation is put on these figures there would seem to be little doubt that the role of small enterprise is considerable in most countries, irrespective of their state of development. Small enterprise typically comprises over 90 per cent of all business establishments; it is responsible for employing about one-third of the total labour force; and notwithstanding the greater productivity of large industrial undertakings, small enterprises are usually responsible for around 30 per cent of gross output. Thus irrespective of the state of development, small enterprises have a major contribution to make to economic life.

The universality of the role of small enterprise is explainable in terms of a whole complex of factors among which limitations of product and factor markets and dis-economies of small-scale have been recognized as limiting factors to the size of the firm and are quite familiar in the usual economics textbook. The nature of demand for the products or services of small enterprise is often conducive to or permissive of smallness. Thus, total demand for a particular product or service might be quite small in a particular country or local area, and the smallness of total demand, *ipso facto,* must be met by smallness of capacity for its production. Geographical conditions of a country or local area might also set severe limitations on the extent of a firm's operations because of transport costs — this state of affairs being conducive to or permissive of small local productive units known as "spatial monopolies".

Indeed, in such highly differentiated and fashion conscious industries as the clothing industries or hair-dressing services, smallness of the productive unit is the rule rather than the exception. Again in the books and periodicals industry there is also to be found a number of products which are sharply differentiated from one another but with a limited amount of substitutability and often comparatively small markets. Here, too, smallness of the productive unit is the rule rather than the exception.

A number of other factors such as technological considerations or the nature of the raw materials also favour smallness in manufacturing industries. If, for instance, the raw material is liable to deteriorate with transport and/or storage, and its production is geographically well-spread (as in the case of milk and its products) industrial units (such as pasteurization and bottling plants) are likely to be small. On the other hand, economies of scale are exhausted at a very early stage in several industrial processes where there are no major technical indivisibilities involved, or where these are not very significant in terms of investment and cost. Thus in the clothing and leather-footwear industries, although economies of organization and marketing may be achieved by combining the output of lots of similar sewing machines or leather shoe-machines, there is no opportunity for securing the kinds of economies of scale such as are involved in large cement plants and blast furnaces.

These and several other factors have been mentioned in economic literature stressing the importance of the role of small enterprises in the economic life of a country. But in developing countries, several governments have in their statements of objectives, policies and programmes, given additional weight to the importance of small enterprises. In Uganda for instance,

> "The Government is taking an increasing interest in aiding small industries and commercial ventures by Ugandans, so that a multiplicity of small enterprises should flourish alongside large-scale industry. Such small concerns, taken together, have a major part to play in creating a varied industrial and commercial economy. Some may even evolve into industrial giants of the future."[10]

Moreover, in an important policy speech in Parliament in June 1965, the then Minister of Commerce and Industry, Mr. C. J. Obwangor, said that . . . "the most pressing problem in Uganda was to increase the effective participation of Africans in business. . . ." The Ministry would help African men and women to participate in and establish small-scale industries. With this system he said . . . "adequate development of small-scale industries should be achieved".[11]

Thus among the principal reasons for which African governments attach such paramount importance to the development of small enterprises is the desire to give a new and broader significance to the concept of Africanization. In this broader sense, Africanization is viewed as the building up of new indigenous undertakings in major economic activities which so far have been dominated by foreign or expatriate interests. No self-respecting Government would leave such racial imbalances as are observable in the fields of industry, trade and commerce in many parts of Africa go uncorrected. For mere political freedom (in the sense of an indigenous government in place of an alien one) without economic advancement of all sections of the population would be untenable. But while modern large-scale industry offers very limited opportunities for employment, small-scale enterprise offers not only greater employment opportunities but also an excellent training ground for the masses of the population. As a recent United Nations report on Industrial Estates has stressed:

> "Provided guidance, assistance, training and support are given, small-scale industries can be set up by people from all walks of life, with small financial resources, little or no technical and management experience, and beginning operation with relatively unskilled labour. These characteristics are predominantly those of the indigenous group of the population of African countries. By promoting small-scale industries, particularly by means of industrial estates, a breakthrough of the indigenous entrepreneur into industrial activities and his participation in the industrialization of his country can be achieved."[12]

Apart from providing a good training ground for management and labour, small enterprises also lend themselves to the use of labour-intensive methods of production, that is, of techniques characterized by a low capital-labour ratio. This is an important consideration in developing countries which have scarce capital and abundant labour. Thus, in Uganda a general principle is "whenever there is a choice of production methods, and the more capital-intensive method offers no advantage in lower costs or easier financing, the more labour-intensive method should be used."[13]

Again, in Uganda the rate of growth in employment by big industry has been disappointing over the last decade.[14] Thus owing partly to steadily increasing productivity in big industry, the total paid labour force in large manufacturing industries was virtually the same in 1964 as it was in 1956 despite the increasing volume of production over the period.[15] However, of the present target of 100,000 jobs expected to be created during the Plan period, 15 per cent or 15,000 jobs are expected to be created in the fields of construction, transport and commerce alone. Another 20,000 to 25,000 jobs are likely to be created in the field of small manufacturing industries. Remembering that big industry is not likely to require a large labour force of not too high a level of skill, it becomes clear what a vital role small enterprises are going to play in the future economic life of this country. It is the small enterprises which will provide employment especially to the lower salaried worker whose importance is, however, likely to decline with the spread of education. It is the small enterprises which will provide the vehicle to the masses of the people enabling them to realize their ambitions with their own efforts, and to improve their welfare and economic and social status.

To summarize, then, it is clear, that in all economies small enterprises are part of the normal economic spectrum and not just an inefficient segment of the economy to be tolerated only so long as larger enterprises cannot be established. The argument could perhaps be taken even a step further and at least under conditions of a mixed economy, the small enterprises sector might be regarded as vital to efficiency. In African countries especially, the development of indigenous small enterprises is not only an effective way of contributing to the diversification and development of the economy and increase in living standards, it is also one of the principal means of achieving social and political objectives of crucial importance to societies which have just emerged from colonialism to independent nationhood.

Problems of Small Enterprises

But small enterprises are beset with several major problems. The ease with which an individual or group of individuals may enter a trade or small industry is accompanied by an equally high death rate. In developed and developing countries several thousands of small businesses are set up every year. But several thousands of individuals and small companies also go bankrupt every year. In Britain, for instance, some 2,000 private individuals go bankrupt each year, and a further 300 to 400 small companies are compulsorily liquidated.[16] In the United States in the 1950's, out of 3¾ million businesses, 250 failed every week and it was estimated that four out of every five enterprises disappeared within a decade.[17] In Uganda, out of some 18,000 registered and unregistered "dukas" at least something like 2,000 shops quietly close down every year. Although big firms also face a number of difficulties, the incidence of such a high death rate among the small firms indicates that the small firms face special risks.

In developing, as in developed, countries, both the establishment and operation of small enterprise is hampered by such things as the insufficiency of technological and managerial knowledge, the scarcity of financial resources, the inadequate skill of labour, lack of information on markets, lack of basic education, institutional rigidities, etc. In Africa in particular, most Africans interested in setting up small enterprises lack one or all of the necessary qualifications, namely, managerial ability, technical skill, and capital. In Uganda, for instance, the opportunities that exist in small service type industries up-country are almost exclusively taken up by Asians. Asians run the garages, the bakeries, the better quality furniture shops, the profitable sawmills, the oil mills, most of the maize mills. It is the Asian that makes most of the shoes, does the welding and blacksmithing, does the radio repairs, makes the candy, does the printing. In the main towns, over 95 per cent of the trading shops are also owned by Asians or Europeans.

It is difficult, although certainly not impossible, for Africans to compete with these established businesses. The African entrepreneur must acquire skills of effective management to the level of his opposite number in established businesses. He must, in addition, understand the environment in which he operates, its development needs and plans, and the process of rapid change in contemporary African society. In other words, in spite of his general lack of basic education and technical skills, the African entrepreneur is expected not only to apply modern management techniques but also to devise a solution to some problems peculiar to his present African environment.

These are some of the problems which make up the special risks of small enterprises in general, and those which, in addition, apply to Africa in particular.

The Financial Problem: Among all the problems confronting small enterprises, few have proved to be as difficult to solve as those of financing. Even in the more advanced countries, "the private firm or partnership and the small enterprise generally are still in difficulty when they need long-term capital; and efforts to meet their need have not yet achieved any substantial measure of success."[18]

Besides the problem of long-term credit only some of these countries have begun to solve the problem of medium-term credit for small enterprises. This is shown by the recent establishment (sometimes with government assistance) of such specialist institutions as the Small Business Administration in the United States; the *Instituti Regionali de Credito a Medio termine per le Piccole Industrie* or the *Instituto Centrale de medio credito* in Italy; the *Caisse Nationale de Credit Professionnel* in Belgium; the *Banque Néerlandaise pour les Classes Moyennes* in Holland; the *Caisse Centrdle de Credit Hôtelier, Commercial et Industriel;* the *Banques Populaires pour l'Artisanat* and the *Caisse Centrale de Credit Cooperatif* in France; the *Industriekreditbank* or the *Kreditanstalt für Wiederaufbau* in Germany; the *Finansierings Institutten für Industri og Hanvaerku A/S* in Denmark, etc.

In these countries, however, the provision of short-term finance for small enterprises is not a problem because a lot has already been done in this regard. The ordinary banking system in these countries supplies normal short-term credit requirements through the normal conventional channels, generally on quite normal terms.

But in under-developed countries the problem of finance for small enterprises is much more intractable applying as it does even to short-term. In Uganda, for instance, not even short-term funds are easily available to the small entrepreneur especially if he happens to be an African entrepreneur. The social, economic, financial, legislative, political and banking systems characteristic of the colonial regime have all combined to make the financial problem for small African enterprises in countries like Uganda particularly difficult.

James Bates has defined the problem of finance for small enterprise as follows:

> "Put at its crudest the financial problem of the small firm is that of finding funds for expansion at the right time or the right type, and in the right quantities at various stages of development. All firms, even the giants of private industry and the nationalised industries, have problems of some sort with finance; but big firms have access to sources denied to the smaller and medium-sized concerns and they frequently have specialized finance departments which give them further advantages."[19]

Bates also identifies three special difficulties facing small enterprise in this regard. First, the small firm may not be able to demonstrate its chances of success in order to persuade potential lenders even though many large firms also face this problem; second, the existing lending and financial institutions may not cater for the special problems involved in small business finance;

third the businessman and his advisers may not know how or where to get the money.[19]

In the following four chapters, we are going to examine the problem of finance for small enterprises in all its ramifications in the context of Uganda, giving particular consideration to African enterprise. In the following chapter, we shall briefly examine some principles of financial institutions and their policies of lending in order to find out how the policies and practices of financial institutions have related to small enterprise in Uganda. In Chapters Three and Four, we shall examine various experiments which have been tried or are in progress in Uganda in order to assess their successes and failures. In Chapter Five, we shall examine the results of a survey which was carried out in order to determine the financial experience of small enterprises in Uganda. Finally, some conclusions will be drawn in Chapter Six and an attempt to assess the present and future financial prospects of small enterprises in Uganda will be made.

But before we turn to these matters, it will be necessary to clarify a few terms which are likely to occur again and again in the discussion. As has been already suggested in regard to loan finance, a distinction is usually made between (a) short-term credit, (b) medium-term credit and (c) long-term credit.

(a) *Short-term credit:* These are loans which are at least theoretically due for repayment within a short time. The loans may be granted for an indefinite period but are liable to be called in on short notice.

This form of credit is granted to cover working capital requirements in the normal operation of firms and is usually in the form of overdrafts on current accounts, the discounting of drafts normally within a period of thirty to ninety days, the grant of maximum credits, and special or seasonal concessions to enable firms to meet particular contingencies, as determined by the economic activity of the firms.

As already mentioned, in the developed countries short-term credit is standard service rendered by banks to enterprises of all sizes, though within the limits of the customer's credit rating with the bank in question.

(b) *Medium-term credit:* These are loans normally granted to finance investments in equipment, in particular machinery and plant, and sometimes in stock.

This is regarded as the most important credit for the small firm, for it is on this credit that the possibilities of transformation, reinforcement, and renewal are substantially dependent. It may sometimes be granted by the traditional banks or sometimes by special institutions or organizations. But these matters will be discussed later.

Its duration may range from two or three years to six or seven years, though it must not be longer than ten years.

(c) *Long-term credit:* These loans are generally for investments in land and buildings and equipment and, consequently, they may be granted for periods of ten, fifteen, twenty or even thirty years and over. These loans, however, may also be used for investments in movable assets of a business.

Although they may be critical for necessary expansion, long-term credit programmes for small firms are the most difficult to establish, since the fate of the enterprise may not solely be dependent on the capacity of the entrepreneur.

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1. United Nations, "Financing of Small-scale Industries in Underdeveloped Countries", *Bulletin on Industrialization and Productivity,* No. 3, p. 39.
2. Diana Hunt, Doctoral dissertation "Agricultural Credit Schemes in Uganda", Makerere University College, 1967.
3. Figures are taken from an article "Small Business Administration" in O.E.C.D. *Conference on Collective Actions Taken by Small and Medium Sized Enterprises to Adapt Themselves to New Market Conditions* (Paris, September 1964) Report 2, Annex V, p. 43.
4. "Small businesses" in the United States are defined as: any industrial firm employing less than 250 persons; any wholesaler whose annual turnover does not exceed $5,000,000; any dealer whose turnover is less than $1,000,000.
5. U. S. Department of Commerce, *United States Census of Manufactures,* 1958 (Bureau of the Census, 1961) Table 3 pp. 2-3, Vol. 1 Summary Tables.
6. Figures are taken from an article: "Development of Small Industry Programmes", by Eugene Staley, in *Methods of Industrial Development,* edited by Albert Winsemius and John A. Pincus (O.E.C.D. 1962) p. 205.
7. See Statistical Year Book, 1961, issued by the Bureau of Statistics of the Office of the Prime Minister, p. 150 et seq. (Government Printer: Entebbe).
8. U.S. Department of Commerce, op. cit. Table 3, pp. 2-3.
9. Staley, op. cit. p. 205.
10. Uganda Government, *Work for Progress: Uganda's Second Five-Year Plan 1966-1971* (Entebbe: Government Printer, 1966) p. 15.
11. Reported by *Uganda Argus,* Saturday, June 25th, 1966.
12. Report of the United Nations Seminar on Industrial Estates in the Region of the Economic Commission for Africa, Addis Ababa, December 1964.
13. Uganda Government, op. cit. p. 146.
14. See A. Baryaruha's study on *Factors Affecting Industrial Employment,* EA.I.S.R. Occasional Paper No. 1 (O.U.P.: Nairobi, 1967).
15. Ibid.
16. James Bates, *The Financing of Small Businesses* (Sweet & Maxwell, London: 1964) p. 9.
17. E. A. J. Johnson and Herman E. Krooss, *The American Economy* (Englewood Cliffs: N. J. Prentice-Hall, Inc. 1960) footnote p. 245.
18. United Nations, "Financing of Small-scale Industries" p. 39.
19. Bates, op. cit. p. 11.

Table I.I

RETURNS ANALYSED BY SIZE OF FIRM
PRIVATE INDUSTRY ALL INDUSTRIES

Size Number of Employees		Returns		Employees		Estimated Cash Wage	Annual Bill
		No.	%	No.	%	£'000	%
0 —	4	1,096	31.9	2,752	1.9	532	2.2
5 —	10	861	25.0	6,079	4.1	1,261	5.2
11 —	20	524	15.2	7,808	5.3	1,807	7.5
21 —	30	213	6.2	5,199	3.5	1,187	4.9
31 —	40	159	4.6	5,593	3.8	1,162	4.8
41 —	50	102	3.0	4,587	3.1	967	4.0
51 —	60	72	2.1	3,994	2.7	682	2.8
61 —	70	44	1.3	2,770	2.0	364	1.5
71 —	80	45	1.3	3,364	2.3	599	2.5
81 —	90	32	.9	2,806	1.9	416	1.7
91 —	100	20	.6	1,899	1.3	359	1.5
101 —	150	98	2.8	12,157	8.3	1,775	7.3
151 —	200	49	1.4	8,434	5.7	1,144	4.7
201 —	300	49	1.4	12,162	8.3	1,392	5.7
301 —	400	25	.7	8,511	5.8	1,016	4.2
401 —	500	12	.3	5,373	3.7	889	3.7
501 —	700	10	.3	5,881	4.0	1,018	4.2
701 —	1,000	10	.3	8,198	5.6	1,239	5.1
Over	1,000	19	.6	36,037	26.6	6,426	26.5
TOTAL		33,440	100.0	146,694	100.0	24,236	100.0

Source: *Enumeration of Employees, June 1965.*

2

Financial Institutions and Small Enterprise in Uganda

Functions of Financial Institutions. Broadly speaking, it is possible to distinguish three functions which the financial sector performs. First it serves as an intermediary between savers and investors. This function can also usefully be subdivided into two components. In the first place, financial institutions serve as reservoirs for the accumulated liquid savings of the community; and in the second place, these institutions direct or allocate those savings among alternative investment opportunities. Second, the financial sector may supply part or all of the circulating media or means of payment. And third, it may supply initiative and enterprise for the creation, transformation or expansion of industrial and commercial ventures.

In a developing — and indeed in any other monetary — economy, the financial sector may perform these functions with greater or lesser efficiency. It may, for instance, stimulate or encourage the saving of a larger proportion of the national income than would otherwise be the case, or it may conceivably depress the level of real saving. It may direct savings into highly productive investments or into inefficient and wasteful ones or into no investment at all. It may provide a "sound" or stable means of payment, or an erratic and unstable circulating medium. It may actively encourage and foster new industrial or commercial ventures, big or small, or it may stifle and repress them by withholding capital and credit.

With this theoretical framework in mind we can now turn briefly to the record of performance of financial institutions in East Africa in general and Uganda in particular in order to evaluate financial structures in Uganda in terms of their contribution to the development of small-scale enterprise, and African enterprise in particular. But the historical background which has given shape to these institutions can only be reviewed very briefly![1]

The Historical Background of Financial Institutions in Uganda. Although the monetary and financial system of any country reflects the political, economic, and even the social structure of that country, the most important single determinant of the character of the system in East Africa was the political background of these territories. At different dates during the latter part of the last century and the first quarter of this century the four East African territories had become dependencies of Britain.

On assuming political control, the British Government adopted the policy of encouraging the settlement of expatriates in these territories. Uganda, for instance, had been marked out to provide an outlet for Indian enterprise and emigration as early as 1901.

> "On account of our Indian Empire we are compelled to reserve to British control a large portion of East Africa. Indian trade, enterprise, and emigration require a suitable outlet. East Africa is, and should be, from every point of view, the America of the Hindu."[2]

In addition, Europeans were required as administrators, settler farmers (especially in Kenya and Tanganyika), skilled technicians and businessmen. Even in Uganda where African land rights have been preserved since 1920, the Chief Secretary had declared it to be the policy of the Government in that year "to encourage European settlement and the investment of capital in every possible way."[3]

In October 1921, however, the same Chief Secretary had changed his views as follows: "As regards crops in Uganda I consider the best policy is for the natives to grow these and for the Europeans to purchase and to market them. This is, I believe, the Director of Agriculture's view, and it has proved to be the correct one."[4] The implication in this policy statement that African enterprise outside agriculture would not be encouraged was accompanied by positive discouragement in practice: "the official policy of Government was to discourage development and to retain the African population in its old tribal ways. Active people with initiative and a willingness to push their ideas and schemes were disliked with an intensity that it is hard to believe today."[5]

But the East African territories were not only politically dependent upon Britain, they were also economically dependent on Britain and the rest of the world. Any territory which relies upon the proceeds of exports for income and upon imports for the expenditure of that income, can be defined as economically dependent. A very large proportion of East Africa's agricultural products is exported abroad but the prices of these exports as well as East Africa's imports are determined by conditions prevailing elsewhere in the world.

As would be expected in these circumstances, indigenous enterprise grew up slowly and only to a limited extent in these territories. The market economy grew up only slowly and did not involve more than a small percentage of the population on a full-time continuous basis. The major portion of the population remained engaged in agricultural and pastoral activities, a major part of which was for subsistence purposes.

Consequently, there grew up in these territories a relatively simple monetary system which was designed primarily to serve the needs of expatriates and was centred around the financing of the movement of agricultural exports and import trade, and around credit institutions which established business in East Africa, maintained close relationships with London and were modelled upon British banking institutions. Their policies, practices and attitudes were therefore largely imported from Britain.

In regard to this last point, it is interesting to note that the East African Currency Board which was established in 1919 and whose members and secretary were to be appointed by the Secretary of State for the Colonies, also had its headquarters in London. The function of the Board as laid down in the regulations, was to "issue at their main offices in the Constituent Territories to any person who makes demand in that behalf, currency notes or coin equivalent to the value (at the rate of twenty East African Shillings to One Pound Sterling) of sums in sterling lodged with the Board in London. The Board shall pay to any person who makes demand in that behalf sterling in London equivalent to the value (calculated as aforesaid) of currency notes or coin lodged with the Board at their main offices in the Constituent Territories".[6]

Thus as the functions of the Board were purely administrative ones of automatic issue and redemption of local currency for sterling and vice versa, on demand, and the transfer of funds between London and East Africa and between East African centres, it dealt only in sterling and East African currency. Consequently the foreign reserves of East Africa were entirely sterling reserves and the acquisition and sale of other foreign currencies by banks on behalf of East African customers were reflected only in a rise and fall respectively in sterling reserves of the economy.

"The East African currency had therefore no independent international standing of its own under the strict Currency Board arrangements, and until recently the East African Governments had no separate quota with the International Monetary Fund, but as non-self-governing territories were covered by the quota of the United Kingdom. Furthermore the East African Exchange Control Legislation was almost identical with that of the United Kingdom."[7]

Hence the operations of the East African Currency Board perhaps more than fulfilled at least one of the basic functions expected of the financial sector. By pegging local currency to sterling, the Board succeeded in providing the East African territories with a highly "sound" or stable means of payment. It can even be speculated that this function was probably fulfilled too efficiently to actively encourage and foster new industrial ventures in these territories. For it is a striking fact that there are many examples on record of rapid and successful industrialization which has taken place in spite of a not-too-"sound" or even a grossly deficient or badly disorganized hand-to-hand circulation. The "wildcat banks" for instance, so-called because they located their redemption offices in such inaccessible spots "that only a wildcat could find them," account for some of the most colourful anecdotes. But despite the numerous crises and financial disasters which resulted, it can scarcely be doubted that the rapidity of American economic growth and industrialization in the nineteenth century owes much to the restless spirits who did not shrink from devising radical and untried instruments to cope with what they regarded as an intolerable shortage of money. Though this is not to suggest that we should have adopted the same practices here, perhaps the risk has been rated too high and we ought to have taken a little more risk.

Instead, however, until recently the commercial banks had not begun playing any significant role in financing indigenous enterprises. Newlyn and Rowan writing in the early 1950's found that in the whole of East and Central Africa there was hardly any financial institution which catered for African enterprise. Even within the field of agriculture, the only field in which African enterprise was bound to be especially important for the future development of these territories, there was hardly any financial institution which was willing to supply long- or medium-term credit in that sector.[8] Rather the foreign banks tended to reserve their funds for expatriate export and import trade requirements. H. L. Engerberg writing as recently as February 1964 says: "It is indeed hard to escape the conclusion that the borrowing needs of agriculture have been somewhat neglected by the banks which have shown a more intense interest in commercial lending."[9] Though in fact this is the case in most countries where special institutions have been created to cater for agricultural needs, it is worse in Africa because of land tenure problems.

Still, Dr. Loxley explains this state of affairs for the period up to 1950 as follows:

> ". . . commercial banks never pretended that their *raison d'être* was to cater for the needs of the African community. They were primarily established to finance credit needs of expatriate farmers, traders, and businessmen . . . Finally the very nature of [British] bank lending policy will always favour short-term advances to industry and commerce since the right type of security is almost always forthcoming and advances are virtually self liquidating. Long-term credit requirements of agriculture are not regarded by banks as being their type of business. . ."[10]

Since the commercial banks looked upon themselves as expatriate organizations catering for the needs of expatriates, they adopted standards and terms of banking business which in general resembled "very closely [to] the standards employed in England . . . . In general the types of security acceptable to banks in East Africa are mortgages, all-money debentures, pledged shares, bank deposits, life insurance policies, directors' guarantees and bills of collection; . . .".[11] In practice this meant that Africans were effectively barred from obtaining any credit from banks. For, as far as the banks were concerned, the sectors demanding the "right type" of credit — namely short-term, virtually self liquidating and low risk credit — were largely in the hands of expatriates.

In Kenya and Tanganyika in particular up to the time of independence

> "almost all lending was confined to expatriates. Africans were effectively discouraged from seeking credit and perhaps effectively barred from obtaining it if they did seek it, by the Credit to Africans (Control) Ordinance of Kenya imposed in 1948 and by the Credit to Natives (Restriction) Ordinance of Tanganyika imposed in 1931. These obliged Africans to obtain written permission from administrative officers (usually District Commissioners) before entering into debt contract with non-Africans. . . . In practice it prevented Africans from obtaining credit by leaving the decision to the District Commissioner who in Tanganyika could even impose his own

conditions."[12]

Indeed this Tanganyika Ordinance proved so effective right up to the time of independence that in 1960 Mr. Muhanna advocated its repeal "so that Africans may be able to get finance facilities for commerce, agriculture and other enterprises."[13]

It should by now be clear that though the banking institutions have made some very valuable contributions to the economies of East Africa by financing the valuable export and import trade and commerce and by providing for crop finance, their contribution to the financing of small — particularly African — enterprises has been negligible. They have tended to reserve their funds for expatriate businesses and local branches and subsidiaries of foreign firms. In Uganda where commercial banks have made some contribution in the financing of expatriate small enterprises, their contribution to African small enterprise has been negligible. Indigenous small enterprise still suffers from a shortage even of working capital.

Apart from banking institutions, other financial institutions such as insurance companies, building societies, hire purchase companies and investment trusts were also not only owned by and designed to cater for expatriate interests, their policies and operations were even more sophisticated to be of much help to African entrepreneurs. Worse still, banking and finance has all along been the smallest field of activity for African entrepreneurs not only in East Africa but also elsewhere in Africa south of the Sahara and north of the Limpopo.

This then has been the kind of financial institutional background which small enterprise, especially African small enterprise, has had to grapple with. Up to 1950 in Uganda as elsewhere in East and Central Africa, there was a serious gap in the structure of financial institutions — a gap that badly needed to be filled. Indeed the Uganda Government was among the first pioneers to initiate programmes designed to protect, stimulate and assist indigenous enterprise in particular. Since the early 1950's the Uganda Government has initiated various financing schemes for small enterprise; and these government sponsored sources of finance for small enterprise will now be examined in the next two chapters.

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1. For a fuller review and discussion see Dr. John Loxley, "The Development of the Monetary and Financial System of the East African Currency Area 1950 to 1964" (Doctorial thesis presented to the University of Leeds, not yet published) Chapter 1.
2. Parliamentary Papers: Africa, No. 7 (1901) Sir Harry Johnston,

Report by His Majesty's Special Commissioner on the Protectorate of Uganda (London: H.M.S.O., 1901) Command 671.
3. Entebbe Secretariat Archives 4806/26.
4. E.S.A. 5790/6.
5. Sir Handley Bird, "Uganda Twenty-Five Years Ago". *The Kingdom of Buganda: Lectures* (Kampala: The Uganda Society, 1956) p. 50.
6. Paragraph 6 of the Regulations defining the Constitutional Duties and powers of the East African Currency Board. October 1920. Appendix I of the Report for the year ending 30th June, 1921.
7. Loxley, op. cit. pp. 25, 26.
8. W. T. Newlyn and D. C. Rowan, *Money and Banking in Colonial Africa* (Oxford: Clarendon Press, 1954), Chapter X.
9. H. L. Engerberg, *Banking in East Africa* (New York University, 1964) p. 45.
10. Loxley, op. cit. p. 88.
11. Ibid, pp. 90, 97.
12. Ibid, pp. 97, 98.
13. Tanganyika Legislative Council Debates, 36th Session (1st Meeting) 12th October, 1960.

3

The Uganda Credit and Savings Bank

Though the Uganda Credit and Savings Bank (UCSB) was reorganized into a full-fledged commercial bank in October 1965, it had been created in the first place with the purpose of filling up a glaring gap in the structure of financial institutions in Uganda. It had been specifically designed to mobilize small savings and to supply capital funds to finance African enterprise in Uganda. It was the first experiment in development banking in Uganda.

In this chapter, therefore, we shall review the experience and try to assess the successes and failures of this experiment in development banking in Uganda. We shall try to discover what principal issues arose in the day-to-day operations of the Bank and to find out some of the ways in which these issues were resolved. We shall also try to analyse the operations of the Bank and to assess the efficiency with which the UCSB was able to promote the policy objectives which gave rise to its being set up. For the UCSB was set up not only to provide capital for African investment, it was also intended to mobilize small savings, enterprise and skills for productive investment in that sector. It will be interesting to find out how viable and effective an institution the UCSB was in stimulating African investment, as well as in contributing to the process of mobilizing small domestic funds for domestic lending. It will then be possible to consider whether alternative proposals could contribute more effectively to the attainment of these desired ends of policy.

Establishment of the UCSB. The kind of background which gave rise to the setting up of the UCSB by the Uganda Government has already been discussed in Chapter Two. When the UCSB was conceived and set up in 1950, it was an exceptional financial institution rather than one following the rule in the whole of East and Central Africa.

The UCSB was established by Ordinance No. 20 of 1950 for the express purpose of facilitating loans to African commercial and industrial — in addition to agricultural — enterprise. The Bank was also empowered to accept savings deposits from Africans; but it was not until May 1956 that the Bank's Savings Section was opened to all races. The Ordinance was signed by the Acting Governor on the 26th July, 1950; and on 2nd October, 1950, the Bank was opened in Kampala for business for the purpose of receiving applications for loans. On the 1st October, 1953, a Branch Office was opened in Jinja; and with the setting up of the African Loans Fund in 1954, the Bank acceded to the request that it should open four additional branch offices in Gulu, Mbale, Fort Portal and Soroti. In 1957 a branch office was opened in Arua and in 1958 branch offices were opened at Soroti, Fort Portal, Masaka and Entebbe Road, Kampala. In addition, six monthly agencies were opened at Lira, Moyo, Kasese, Butiti, Kyenjojo and Lake Katwe.

Organization of the UCSB. The Bank was to be administered by a Board of Management consisting of the Financial Secretary or his representative who was also to be Chairman of the Board. Other *ex-officio* members were to be the Registrar of Co-operative Societies or his representative and the Secretary for African Affairs or his representative. Not more than seven other members of whom not less than two had to be Africans were to be appointed by the Governor. These members were to hold office for a period of two years. At the expiration of this term of office any member would be eligible for re-appointment. The Ordinance was amended in 1958 when a post of Deputy Chairman who could act in the Chairman's absence was introduced; also, thenceforth there were to be nine appointed members whose term of office was to be from one to three years and any member would be eligible for re-appointment at the expiration of his term of office.

Otherwise, the composition of the Board remained basically unchanged throughout the life of the Bank. However, the designation of *ex-officio* members varied from time to time as various constitutional changes occurred and as responsibility for African enterprise was shifted to various portfolios according to various Cabinet reshuffles. At the time of the reorganization of the Bank into a commercial banking institution on 8th October, 1965, the

Board of Management consisted of the Secretary to the Treasury who was also Chairman of the Board — the other *ex-officio* members being the Permanent Secretary to the Ministry of Agriculture and Co-operatives, the Permanent Secretary to the Ministry of Planning and Community Development, the Permanent Secretary to the Ministry of Animal Industry, Game and Fisheries, and the Principal Assistant Secretary to the Ministry of Regional Administrations. There were, however, only five other appointed members to the Board representing the interests of the different regions of the country.

Finances of the UCSB. The liabilities and assets distribution of the Bank is shown in Table 3.1. (Note that the figures given in this and all the other following tables in this chapter are as at 31st December from 1950 to 1954. The figures for 1955 are for six months only i.e. from 1st January to 30th June, 1955. Thereafter, all the figures are given as at 30th June. Note also that owing to rounding in changing Shillings into Pounds, "TOTALS" may not add up to the sum of the items.) The UCSB was financed by an initial grant of £631,749 voted by the Legislative Council from Government funds. This capital consisted of gilt-edged securities which were transferred to the Bank at the going market value. It was increased by another £311,000 — of which £299,600 was realized — in 1963 when the Government accepted the recommendation of the World Bank Economic Survey Mission to Uganda that this sum which represented loans originally made by the Government from the African Development Fund should be transferred to the Bank. In practice, the Bank's capital turned out to be an interest-free Government loan. However, a reserve fund was to be created out of interest earnings on equity capital and earnings on other operations of the Bank.

As already mentioned, the Ordinance establishing the Bank also provided for the mobilization of local savings. By 31st December, 1951, only eight months after the start of operation of the Savings Bank section, there were 181 accounts with an outstanding balance of £7,723 (see Table 3.2). By 30th June, 1956 the number of accounts had increased to 1,752 with a balance of £214,883 outstanding. The number of accounts rose to 50,420 in 1961 and 82,479 in 1965 with outstanding balances of £1,483,745 and £2,058,444, respectively. The average sum of money per account ranged from a low of £23. 16s. in 1964 to a high of £122. 14s. in 1956.

There was no provision in the charter by which the Bank could raise additional funds by the sale of equity shares either to commercial banks or other private investors. On the other hand, though the provision existed to raise additional funds by loan capital, this facility was never resorted to.

However, in September 1954, the Ordinance was amended to permit the Bank to act as Agent for the administration of additional funds on behalf of other bodies and organizations. The Bank was accordingly appointed Agent of the administration of the African Loans Fund which had been instituted at the same time. The initial capital for this Fund was a grant of £150,000 voted and put at the disposal of African Loans Fund Control Committee by the Legislative Council. The capital of the Fund was increased to £218,000 in 1958 and to £308,000 in 1959. A further loan of £27,821 was obtained from the UCSB in 1965. This Fund was to be controlled through the Agent by the ALF Control Committee consisting of two *ex-officio* members, one of whom was to be appointed Chairman, the Secretary to the Board of the Bank, and four Africans representing each province. The purposes of the loans were to be virtually the same as those of the Bank.

The Bank was also appointed to act as Agent for the administration of the International Co-operation Administration — then known as the Foreign Operations Administration — Revolving Loan Funds from the United States of America. The first capital grant of £100,299 was made in 1954. However, though this fund was opened for applications on 1st November, 1954, no loans were actually made from it until April, 1958, owing to disagreement over the regulations which would govern the fund. Meanwhile accumulated profits added to the fund were £13,289 and the name of the fund had been changed to ICA Revolving Loan Fund. On the exhaustion of the original grant, a further grant of £50,000 was made in 1961.

On 31st December, 1959, a second grant of £30,000 was made by the ICA and was placed at the disposal of the Uganda Government. This capital grant, however, was quickly exhausted and a further grant of £50,000 was made in March 1961. This had to be supplemented again by a further allocation of £40,000 in 1963.

It is important to note that in practice these funds were consolidated into one operation. As early as 1960, the Board of Management said: "In this connection it is now convenient to consider as one operation all the funds controlled by the Bank. The African Loans Fund and the International Co-operation Administration Funds are complementary to the Bank's own fund. . . ."[1]

Loans

Applications. Rules regulating the form of application for loans were made by the Governor in Council on 20th September, 1950. Applications for loans were to be made in the form shown in Appendix 3.A. Where the security offered was a mortgage of land within the limits of a municipality or township, the basis of valuation was to be similar to that made by the competent authority for the purpose of levying rates but with due regard to the prevailing prices in land transactions in the area. Outside the limits of municipalities and townships valuation was to be based on the going prices in similar land transactions in the area. Apart from these mortgages of land, equitable mortgages and life assurance policies, the basis of valuation was to be left to the discretion of the appointed valuer.

The purposes for which loans could be made were for the purchase and development of land, the discharge of prior encumbrances on land or liabilities for its improvement, the payment of agricultural variable inputs as well as agricultural machinery, livestock trade, erection and repair of buildings, the payment of certain premiums on insurance, and the financing of any trade, business or industry.

As previously mentioned, the Bank was opened for business on 2nd October, 1950 for the purpose of receiving applications for loans. There was an immediate rush for application forms, 86 of these being issued on the first day; by the end of the month 557 forms had been issued and by the end of the year the number had risen to 830. Great interest in these forms was kept up during the following three years — the volume of application forms issued reaching a peak of 2,083 in 1953. In 1954, however, more stringent terms were introduced both in regard to closer inspection and examination of security and to the Bank's action in foreclosing on its mortgages on overdue instalments. Moreover, when the non-secured or "character" loan scheme of the African Loans Fund was introduced in that year, the combined effect of these events was to substantially reduce interest in applying for loans from the Bank proper.

Table 3.3 shows the total number of applications and the volume of loans submitted to, and the number and volume of loans approved and those rejected by the Bank. In the first three months of the Bank's operation in 1950, 298 applications aggregating a sum of £226,695 were submitted to the Bank. Of these, 166 applications totalling £41,465 were approved and 132 applications totalling £115,185 were either rejected or referred back for further information such as location of the land offered as security, details of building plans, audited accounts, etc. There then followed a very rapid increase in the volume of loan applications submitted to the Bank. This reached an all-time high in 1953 when 1,106 applications aggregating £624,341 were submitted. Of these, however, only 357 totalling £102,328 were approved and 749 applications totalling £437,806 were rejected or referred back. This represented a rejection rate of 68 per cent by number and 84 per cent by value. However, the biggest volume of loans was approved in 1963 when 205 applications aggregating £589,949 were submitted and 57 applications aggregating £249,858 were approved. Though this represented an approval rate of only 28 per cent by number, it represented a rate of approval of 42 per cent by value. The highest rate of approval was in 1962 when 70 per cent by value of the volume of loans submitted was approved.

Appraisal of Loans. In the latter period of the Bank's life, the usual practice was to send the completed and submitted application forms to various Government Ministries — according to the purposes for which loans were being applied for — for evaluation and appraisal. Application forms submitted for a business loan, for instance, would be sent to the Trade Development Section of the Ministry of Commerce and Industry for appraisal and a report of findings would be forwarded through the head of that Ministry to the Board for approval or rejection. The Assistant General Manager would study these reports carefully and evaluate them especially in regard to security, experience of management, economic viability, etc. He had power to turn down any application on the spot, especially if he considered the security inadequate. It was also in his power to approve loans not exceeding £500 on the spot. Loans of up to £1,000 were to be approved by a Sub-Committee of the Board. Loans in excess of £1,000 were to be approved by a full Board.

Formerly, a tiny team of inspectors had been employed to help in expediting the process of evaluating the applications for loans. In 1953, a seconded agricultural inspector was able to carry out a full year's inspection. A shop inspector was also appointed in the month of October of that year; but for lack of suitable personnel, a private company was hired to act as building inspector. One officer was added to this *ad hoc* agricultural and shop inspectors team in 1954; but "due to the difficulty of recruiting suitable personnel", only one other man was added to the inspectorate staff in 1956. The Board, however, "was well aware of the need of a larger inspectorate, particularly to assist in the administration of the African Loans Fund and every effort will be made during the coming year to obtain suitable staff."[2] In the circumstances, however, this hope was not realized. For in 1957 the shortage of inspection staff was "still acute; only one additional inspector was appointed during the year."[3] But in that year a nominal inspection fee of Shs. 10/- was introduced because of increasing inspection costs. No further posts were filled the following year or any other year after 1958. Instead, "the officers of the Trade Development Section," for instance, "undertook a very considerable number of inspections in respect of shopkeeping loans."[4] This was the transitional period to complete dependence on Government Departments or Ministries for the inspection, evaluation and appraisal of applications for loans.

Outstanding Loans. The analysis of outstanding loans is shown in Table 3.4. The number of accounts outstanding reached a peak of 1,285 in 1953; thereafter, there was a definite declining trend in numbers which hit a low of 354 in 1965. The volume of loans, however, generally continued to rise in value so that in 1964 outstanding loans hit a peak of £996,963. The average sum of money per account was £231 in 1951; it rose to £238 in 1953, started declining thereafter until it hit a low of £209 in 1957, but started rising again so that by 1965 the average sum per account was £2,741. This is a reflection, bearing in mind the operation of the ALF and ICA Funds after 1955, of a policy whereby the Bank tended to shy away from small-scale individual loans to large-scale basically Co-operative loans. Of the 567 outstanding loans, for instance, totalling £249,478 in 1958, three were Co-operative loans totalling a sum of £180,300.

The rate of interest charged on those loans ranged from 6 to 7½ per cent.

The purposes for which loans were approved in regard to industrial and commercial financing are shown in Table 3.5. On account of the Bank's funds proper, there were altogether 72 loans involving £283,425 approved for manufacturing industries; 521 loans involving a total sum of £926,280 were approved for the erection of residential and industrial buildings; 572 loans involving a total sum of £138,239 were approved for trade and commerce; and 111 loans involving a total sum of £148,189 were approved for the purpose of purchasing lorries and buses.

Repayments. A statement of interest and loan instalments overdue for which figures were available is shown in Table 3.6. The high percentages of loan instalments and interest unpaid which reached a high of 33 per cent in 1957[5]— the last year for which figures were available — shows that in the early years of its life the UCSB encountered serious repayment problems. However, as previously mentioned, the UCSB was not slow in tightening up its repayment collection procedures. As early as 1953, the Bank found it necessary to invoke the powers of sale given under the Ordinance and commenced selling defaulters' securities. When it was found that the results of the first sales were not encouraging the Bank decided to increase the required margin of security and clamped down on the number of loans it would approve. Though these actions had a depressing effect on the number of applications for loans submitted, the repayments position started improving and by 1957 the situation was so well in hand that the Board was able to report:

> "The loan business of the Bank has now been placed on a sound financial basis and represents genuine business without inflated risk. The Bank is no longer regarded as the source of 'free' money which was the unfortunate impression created in the years immediately after its establishment and, although progress may be slow in extending its loan facilities under the more realistic conditions prevailing today, it is at least known that such business is sound."[6]

The apparently high percentages of total instalment and interest overdue in 1957 reflect only the substantial sums of interest and instalments unpaid but the majority of whose loans had been granted between 1950 and 1953.

Though the figures were not available for the years 1958-1965, the continued success of the Bank's achievement in having loans repaid can be inferred from the record of steadily declining provisional amounts of "reserve for Bad and Doubtful Debts." While the provision for this was £37,500 in 1957, the provision for the same was £25,000 in 1958, £15,000 for 1959 to 1962, £7,500 in 1963 and only £1,000 in 1964 and 1965. Though during that time £6,529 was actually written off in 1959 and another £8,242 written off between 1960 and 1963, there was no value written off in 1965 and £698 was actually recovered and written back in 1964.

This repayments record of the Bank's fund proper, however, contrasts sharply with the record of repayments on the other loan funds. Again as complete sets of figures were not available, the percentages of loan instalments and interest unpaid could not be calculated; it is still clear, however, that the ALF and ICA encountered substantial repayment problems. On the 30th June, 1965, out of 3,800 total accounts outstanding, over 2,000 accounts were overdue representing a percentage of overdue accounts of over 53 per cent. Of the £504,437 outstanding at the same date, £106,720 were overdue — representing a percentage of 21 per cent of the total value outstanding. Again, on the same date, £26,406 were written off as bad debts. As a result the Funds were virtually exhausted and could no longer revolve.

Andlysis and Appraisal of Operations of the UCSB

The Uganda Credit and Savings Bank certainly performed a positive function in the economy of Uganda. Prior to the setting up of the UCSB there was no organized source of long- and medium-term capital for especially African enterprise. The UCSB in conjunction with other organizations filled in this gap and undoubtedly made it possible to launch a vast number of projects — many of which were successful — but which would never have otherwise materialized. The Bank also, to some extent, seized the opportunity of performing a valuable educational function in addition to offering credit facilities to the mass of people in Uganda upon whose enterprise the economic future of the country is ultimately to depend. The UCSB therefore was a significant instrument of economic development in Uganda.

Once this has been said, however, it remains to be seen whether the UCSB efficiently performed the functions for which it was set up. Evidence from Table 3.2 would suggest that the Bank was particularly successful in mobilizing domestic small savings. It is on the lending side, however, that doubt arises whether the Bank's performance in this field proved to be equally efficient. It seems that the Bank's lending activities fall into two distinct phases. The first phase consists of the Bank's early days when it had close contact on a wide scale with many Africans. It is the phase when the number of outstanding loans reached a peak of 1,285 and the average size of loans per account reached a peak of £238 in 1953 (see Table 3.4). Lending activities and contact on a wide scale then started declining from 1954 and this went on until 1957 when the volume of outstanding loans hit a low of £152,617 and the average size per loan hit a low of £209. This marked the end of the first phase. The second phase, starting from 1958 onwards, seems to have been marked by a tendency by the Bank to shy away from a wide contact with the masses where the risk was too large and to gear its lending activities to larger and safer co-operative business even though one would have thought the commercial banks were already providing that facility equally efficiently. As previously mentioned, of the 567 outstanding loans totalling £249,478 in 1958, three were Co-operative loans totalling a sum of £180,300. As a result of these activities, the average size of loans outstanding shot up from £209 per account in 1957 to £440 in 1958 and rose steeply thereafter reaching a peak of £2,741 per account in 1965.

In general, it appears that during the first phase consideration of applications had more regard to the suitability of the project than to the suitability of the applicant. It appears that the majority of loans from the Bank's funds were granted to individuals who lacked commercial knowledge, integrity and a sense of business responsibility; very few had the ability to keep even the most elementary accounting records and many were illiterate or semi-literate as would be evidenced by the presence of thumbmarks in place of signatures on some of the agreements.

The first phase, however, is particularly significant. It was during this phase that the Bank learnt its lessons and developed its attitudes and subsequent *modus operandi.*

Management. The UCSB being a public bank, capitalized entirely from public funds, was bound to have its Board of Management weighted in favour of *ex-officio* interests. But a Board constituted with busy civil service members was likely to be slow-moving. Apart from the fact that non-official members were scattered all over the country the *ex-officio* members' other official duties made it difficult to schedule frequent meetings and, in any case, official Board members obviously would have little time to familiarize themselves with a whole 1,106 investment proposals as were submitted for consideration in 1953. Although a system of Agricultural and Building Sub-Committees was introduced to expedite this volume of business, there was no general manager at that time who was responsible for putting into effect the policies laid down by the Board. In fact, on 31st December, 1952, the staff of the Bank consisted of "1 Secretary (European), 1 Lady Stenographer (European), 1 Lady Clerk (European), 2 Asian Clerks, 2 African Clerks, 1 Inspector (African — an Assistant Agricultural Officer seconded by the Department of Agriculture), and 1 Office Boy".[7] However, the need for competent, experienced personnel cannot be over-emphasized. It has been suggested that running a development bank is not a routine job. "It requires skill, judgement and imagination."[8] The personnel list given above, however, does not give the impression that these people had either the experience, competence or the requisite attributes and skills in this field.

In its early days, and in fact for the most part throughout its life, the Bank (on its own account) tended to act purely as a land bank granting loans on the security of a clear land title with a 50 per cent — or higher — margin. But

> "land banks employ a special technical staff of valuers and advisers, and this fact not only ensures that the security is adequate and that the loan is properly applied, but also benefits the borrower and facilitates economic development by reason of the improved agricultural methods resulting from this expert advice."[9]

However, the UCSB in its early days had no staff of expert inspectors and advisers as are usually employed by agricultural land and/or development banks.

Even when the Board came round to appointing a manager in 1954, it appointed a retired expatriate commercial bank manager. However, "the manager of a development bank", it has been suggested, "particularly one which is new and labouring under great difficulties, should have a combination of skills that would be rare anywhere."[10] It is not surprising, therefore, that rather than concentrating on an intimate knowledge of the borrower, the Bank from its early days started adopting a British banker's point of view and placed rather too much emphasis on orthodox types of security. The result was that until 1954 when the African Loans Fund was introduced, most of the loans were confined only to Buganda. This state of affairs was, of course, bound to have undesirable political overtones.

> "Furthermore, although the Bank was explicitly designed for Africans, the application forms and agreements in use at the time were printed in English, and no pamphlet of any kind had been produced which set out facilities offered by the Bank and explained its methods of operation. The existence of widespread illiteracy, demonstrated by the presence of thumbmarks in place of signatures on some of the agreements, does not excuse this failure to attempt communication with that section of the community which is literate in its native tongue."[11]

This criticism of the Bank was made in 1951. Application forms were eventually printed in Luganda but no pamphlet explaining the Bank's facilities and methods of operation was ever prepared and printed for distribution to the public. This is in sharp contrast with the former African Business Promotion which ran —

now run by the National Trading Corporation — a monthly magazine not only to explain to its clientele the facilities ABP had to offer, but also to inform them about various business and educational aspects of interest to the small businessman.

Throughout its life the Bank had only a scanty inspectorate staff who acted as valuers. It did not recruit any technical or managerial advisers. Yet managerial and especially technical assistance has proved so valuable an aid to industry that development banks generally offer assistance of one kind or another, or hope to be able to do so eventually. The provision of capital especially to small-scale enterprise is only one of the two main functions of development bank lending. Hence, in the complex situation of problems facing small-scale enterprise, a development bank will fail in its mission if it attempts to tackle only the one aspect of providing capital without also tackling at the same time the related technical and managerial problems. Most development banks elsewhere have rendered various kinds of technical, managerial and other advice and assistance in addition to providing capital to their clientele.

> "Even with limited staff and resources, they can usually afford to do something along these lines. If the bank neither offers assistance nor arranges to have necessary services made available to prospective clients, it will very likely find itself fairly consistently rejecting applications from smaller enterprises and confining its financing to the larger companies, whose applications are usually the product of more detailed study and greater experience."[12]

With regard to the UCSB, evidence from Table 3.4 would seem to support some of these remarks. Comparative to figures in the first phase, the Bank definitely started concentrating on fewer and bigger but safer loans in the second phase. Other loans such as those made for the erection of residential and industrial buildings would seem to have been particularly favoured as the repayments for those loans had proved to be so successful.

Thus the overall impression one gets of the Bank's behaviour during the second phase is that of deliberately trying to emulate the orthodox commercial bank practice. Rather than boldly confronting the complex problems of financing small-scale enterprise squarely in the face, the UCSB chose instead, it seems, to turn the other way of commercial banking, and to leave the small-scale financing problems to other bodies and organizations. Yet one would have thought that it is precisely the presence and recognition of these very problems as such that gave rise to the conception and institution of a development bank in the first place.

The Bank's Costs of Supplying Loan Funds. The data on provision of "Reserve" funds and on losses incurred in the financing of African enterprise by the Bank is shown in Table 3.1. These indicators together with the total amount of £19,983 which was written off as "Bad Debts" provide a means of measuring risk as a cost element. Moreover, the long record of accumulated losses on the operations of the Bank shows not only a rather high element of risk but also the high administrative costs which were involved in them. But in the light of the social services the bank was performing, these costs cannot be considered excessive.

It was not until 1965 that the Bank was able to wipe out all its accumulated losses and to make a net profit of £10,334. And by the time the Bank got transformed into a commercial bank, net profit had risen by £8,553 to £18,887. This result is not unexpected bearing in mind the fact that the Bank had for a while been operating on rather traditional commercial banking lines. However it is no credit to the Bank that when they turned commercial, they were able to wipe out all their accumulated losses and to make a profit.

The other loan funds, on the other hand, showed comparatively higher magnitudes of accumulated losses. For instance, besides the £12,068 written off as bad debts in respect of the African Loans Fund between 1960 and 1965, the volume of accumulated losses was £19,406 in 1958, rising to £25,848 in 1961 and falling slightly to £23,959 in 1965.

Table 3.7 shows the service cost element, and other direct costs of lending and servicing. It is clear that these costs were high because of dis-economies of scale. But high administrative costs in which a development bank is bound to be involved only raise the question whether it should try to make a profit or not. If the main issue is how efficiently the UCSB was run rather than whether it made a profit, then it could be said that the UCSB was run efficiently since it finally managed at least to cover the costs of its operations and to set aside a small amount of reserve.

But if the viability of a development bank is deemed to be much less important than the viability of the enterprises it finances, then what is important is the way in which these enterprises are financed and whether the organization of the credit facilities by the investment institution make economic sense. After all, if those enterprises made an appropriate return on the capital borrowed, the investing institution would itself earn a fair return on its capital investment. The UCSB's attitude to African enterprises, however, as reflected in its policy of lending only to "sound business" as quoted above, seems to be a shirking of the responsibility for which the institution was set up in the first place. The Bank should have been the first to realize that the African entrepreneur was not sufficiently accustomed to a monetized business and that there was some danger that he might mistake cash receipts for consumable income without thinking of debt service, provision for depreciation and reserves. Rather than thinking, as a result of its experience in the first years, of providing training in technical, managerial and financial skills, the Bank assumed instead a sophisticated clientele who already knew about "sound" business principles, had the requisite financial and commercial honesty, managerial and technical skills. It is not surprising therefore that to the extent the Bank increased their overseas capital investment in gilt-edged 2½ per cent stocks, they acted as exporters of capital. To that extent the Bank did not act as a channel by which funds would be mobilized and directed into local investment.

Reducing the Costs of Lending. It is interesting to note that high costs of lending to small business are not confined to African enterprise as such or even to developing countries in particular. The following quotation refers to the United States:

> ". . . the relative cost of lending tends to be inversely related to the size of the loan . . . since investigation and administration costs do not decline substantially as the size of loan declines and the risk costs (potential losses) rise as loan size falls. Finally, since rejection rates tend to be higher for small concerns (because on the average they represent poorer risks and, also, because most of them are new customers and need to be investigated thoroughly) the average cost per loan made (including the share of costs for loans rejected) is higher than for credit extended to larger firms. Indeed the cost of screening acceptable risk among small and, in particular, new concerns is high, as are the service costs. . . . The industrial loan experience of the Federal Reserve Bank of New York during the 1930's indicates that managerial assistance is an integral and perhaps indispensable part of a successful bank management of small-loan portfolios."[13]

The task of reducing costs of lending to small-scale enterprise, then, is likely to be a fairly long term one. In the short run, it would perhaps be easier to reduce the administrative and servicing cost element by enlarging the lending institution and letting it specialize in small-scale enterprise. It would then be possible to set up an adequate managerial and technical staff not only to evaluate applications for loans but also to give the necessary assistance and advice. In those circumstances, the operation is likely to be spread over a much larger volume of lending. Most probably the reason why the direct costs of ALF and ICA funds were so low was due to the largeness of their number relative to value.

However, the costs involved in responsibility for providing such general services to small-scale enterprise in addition to providing capital, need not be wholly covered from the lending institution's capital or income. This would seem to be a reasonably clear case for Government contribution. In fact, during the life-time of the UCSB, this contribution was provided by Government. However, the contribution was scattered over the Ministry of Commerce and Industries, the Ministry of Agriculture and Co-operatives and the Uganda Development Corporation. But there appeared to be no clear co-ordination between these service agencies on the one hand, and the former UCSB and the ALF and the ICA organization, on the other.

As far as reducing the risk cost element is concerned it would appear that the application of some of these measures discussed above would have protected and improved the operation of the lending institution; they would also have had a favourable effect on the position of the borrowers. If a small-scale entrepreneur receives adequate technical, financial and managerial assistance and advice, the overall efficiency of his enterprise increases and the risk of insolvency or bankruptcy is thereby diminished.

Conclusion. While in its sixteen years of operation, the UCSB undoubtedly contributed to the economic development of Uganda, it seems that it failed to help in cultivating and providing the attitudes and skills which would have enabled small-scale enterprise to play its full part in the economy. The solution to the financial problems facing small-scale enterprise in Uganda would seem to lie not so much in providing more commercial banking facilities, as in expanding and improving development banking credit facilities and providing technical and managerial assistance and advice. For as Geiger and Armstrong have reported:

> "the inadequacy of African managerial and technical skills is a major factor in the failure of many public and private programmes for providing loans and credit facilities to African entrepreneurs, *particularly newcomers and those engaged*

in small-scale activities. It is also the main economic cause of the comparatively large percentage of business failures and defaults on loans and credit extensions. . . . Even where the borrowing entrepreneur honestly intends to service and repay his obligations, he may be unable to do so because he has not used the funds productively owing to inadequate knowledge and skills."[14]

A major task of the financial promoter for small enterprise therefore should be partly to educate the African entrepreneur in managerial and technical skills. Instead, however, on reorganization to commercial banking, "the Bank's lending policy now is necessarily conservative with safety, liquidity and profitability in foremost view, . . ."[15]

This kind of policy would seem to leave a lot to be desired if indigenous small enterprise is to play the role it is supposed to play in the economic progress of this country. Once the importance of small and medium enterprises in the economy of the country is recognized, it follows that steps should be taken to favour their development and to ensure that the banking system directs an adequate proportion of investment funds to this sector. These steps should not be considered as acts of favouritism, but simply as the right means of ensuring the existence and possibility of developing an extremely important sector in the economy of the country.

Thus rather than following traditional rigidities and blockages in the channels of finance to small enterprises, banking institutions in developing countries should also look upon their role as that of initiators and innovators of commercial and industrial enterprise. After all, the devices of many of the early banking systems of today's advanced nations were often crude, experimental, and even reckless at times. Even though such devices are at variance with modern concepts of conservatism, liquidity and profitability, they were in fact the foundation stones of industrial advance and economic progress in those countries.

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1. *Annual Report,* 1960, p. 2.
2. *Annual Report,* 1956, p. 3.
3. *Annual Report,* 1957, p. 3.
4. *Annual Report,* 1958, p. 3.
5. The figures in Table 3.6 include instalments and interest due but unpaid as of the respective dates given. These amounts may therefore be higher than the amounts actually sustained by the Bank subsequently.
6. *Annual Report,* 1957, p. 1.
7. *Annual Report,* 1953, p. 3.

8. William Diamond, *Development Banks* (Baltimore: John Hopkins Press, 1957) p. 78.
9. Newlyn and Rowan, *Money and Banking in Colonial Africa*, p. 124.
10. Diamond, op. cit., p. 79.
11. Newlyn and Rowan, op. cit., p. 221.
12. Shirley Boskey, *Problems and Practices of Development Banks* (Baltimore: The John Hopkins Press, 1959) pp. 99-100.
13. United States Congress, *Financing Small Business: Report to the Committee on Banking and Currency and Select Committees on Small Business Federal Reserve System* (Washington, D.C., 1958) pp. 14, 31.
14. Theodore Geiger and Winfred Armstrong, *The Development of African Private Enterprise*, Planning Pamphlet No. 120 (Washington, D.C.: National Planning Association, 1964) p. 50. The emphasis is the present writer's.
15. Uganda Commercial Bank, *Annual Report*, 1965-1966, p. 7.

Table 3.1[a]

THE UGANDA CREDIT AND SAVINGS BANK—ANNUAL BALANCE SHEETS (£)

	LIABILITIES					ASSETS					
	CAPITAL										
Year	Funds Voted by Uganda Govt.	Reserve Fund	Deposit Accounts	Current Liabilities	TOTAL	Fixed Assets	Secured Loans + Accrued Interest	Investment at cost: Dated Stocks	Current Assets	Accumulated Losses	TOTAL
1950	631,749	6,620	—	50	638,420	332	7,055	474,659	151,337	50,361	638,420
1951	631,749	22,414	7,723	31	661,918	Nil	126,143	508,614	19,640	7,522	661,918
1952	631,749	38,208	12,101	213	683,867	—	235,276	406,562	20,372	21,656	683,867
1953	631,749	—	22,983	1,981	655,813	—	223,812	361,141	16,475	54,385	655,813
1954	631,749	—	44,238	3,839	679,826	10,114	169,986	418,448	24,740	44,037	679,826
1955	631,749	—	88,982	4,157	724,888	15,435	155,565	401,355	109,657	42,877	724,888
1956	631,749	5,555	214,883	56,223	908,410	22,849	131,056	630,171	124,334	—	908,410
1957	631,749	6,340	565,261	10,708	1,214,058	56,243	115,117	990,483	52,214	—	1,214,058
1958	631,749	6,608	707,641	7,483	1,353,481	129,777	224,478	931,795	67,431	—	1,353,481
1959	631,749	—	1,110,077	9,207	1,751,033	173,884	328,276	1,166,612	76,187	6,075	1,751,033
1960	631,749	—	1,362,225	17,076	2,011,050	180,855	287,255	1,413,147	117,240	12,553	2,011,050
1961	631,749	—	1,483,746	5,722	2,121,217	196,992	442,785	1,322,203	128,351	30,885	2,121,217
1962	631,749	—	1,463,959	7,060	2,102,769	222,969	482,417	1,198,928	153,554	44,899	2,102,769
1963	931,348	—	1,701,938	10,244	2,643,530	236,326	856,938	1,248,348	261,307	40,611	2,643,530
1964	931,348	(Net Profit)	1,807,311[b]	11,424	2,750,083	238,709	995,963	1,302,401	193,657	19,353	2,750,083
1965	931,348	10,334	2,136,677[c]	74,013	3,152,367	234,054	984,638	1,716,280	217,396	—	3,152,367
1965[d] ..	931,348	18,887	2,216,705[e]	84,712	3,251,652	237,467	999,030	1,766,562	248,594	—	3,251,652

a. The figures given in this and all the other following tables are as at 31st December from 1950 to 1954. The figures for 1955 are for six months only i.e. from 1st January to 30th June, 1955. Thereafter, all the figures are given as at 30th June. Note also that owing to rounding in changing Shillings into Pounds, "TOTAL"s may not add up to the sum of the items.
b. This figure includes a balance of £99,468 on the Government Group Farm Account.
c. This figure includes £78,228 on the Government Group Farming and Training Fund Account.
d. As at 8th October, 1965.
e. This figure includes £70,447 and £35,464 Uganda Government deposits and grants, respectively.

Table 3.2

SAVINGS BANK ACCOUNTS AND BALANCE 31.12.51 to 30.6.65

Year	Number of Accounts	Amount(£)	Average Amount per Account (£)
1951	181	7,724	42.7
1952	343	12,101	36.3
1953	520	22,983	44.2
1954	711	44,238	62.2
1955	1,027	88,242	85.9
1956	1,752	214,883	122.7
1957	8,197	565,261	69.0
1958	19,558	707,641	36.2
1959	30,422	1,110,077	36.5
1960	41,815	1,362,225	32.6
1961	50,420	1,483,746	29.4
1962	56,156	1,463,959	26.1
1963	63,506	1,701,937	26.8
1964	71,689	1,707,843	23.8
1965	82,479	2,058,444	25.0

Table 3.3

APPLICATIONS SUBMITTED

Year	Number Submitted	Amount £	Number Approved	Amount Approved	No. rejected or referred back for further details	Amount £
1950	298	226,695	166	41,465	132	115,185
1951	914	557,773	637	168,410	277	286,139
1952	722	553,940	569	179,717	153	259,976
1953	1,106	624,341	357	102,328	749	437,806
1954	573	270,003	112	22,350	461	223,995
1955 1st Jan. to 30th June	194	88,406	34	9,735	150	73,276
1956	518	215,582	122	35,666	396	162,065
1957	523	224,767	191	37,648	332	144,390
1958	362	332,860	96	155,741	266	177,111
1959	452	324,528	176	131,356	276	193,172
1960	369	295,136	141	136,663	228	158,473
1961	312	359,869	150	105,647	162	254,222
1962	281	300,516	85	210,124	196	90,392
1963	205	589,949	57	249,858	148	340,091
1964	204	199,758	64	53,233	140	146,525
1965	222	361,705	102	167,000	120	194,705

Table 3.4

ANALYSIS OF OUTSTANDING LOANS

	U.C.S.B.			A.L.F.		I.C.A. (1st Grant)		I.C.A. (2nd Grant)		TOTAL		DIRECT COSTS TO THE BANK	
Year	No.	Amount £	Average	No.	Amount £	No.	Amount £	No.	Amount £	No.	Amount £	U.C.S.B. £	ALF & ICA(£)
1950	n.a.	7,055	n.a.	—	—	—	—	—	—	n.a.	7,055	1,376	—
1951	546	126,142	231	—	—	—	—	—	—	546	126,142	3,862	—
1952	1,099	247,660	225	—	—	—	—	—	—	1,099	147,660	5,426	—
1953	1,285	306,312	238	—	—	—	—	—	—	1,285	306,312	12,840	—
1954	1,151	252,486	219	—	—	—	—	—	—	1,151	252,486	19,642	—
1955	991	215,570	218	n.a.	n.a.	—	—	—	—	—	—	7,614	2,715
1956	787	168,556	214	n.a.	n.a.	—	—	—	—	—	—	19,558	5,650
1957	729	152,617	209	n.a.	n.a.	—	—	—	—	—	—	21,749	8,400
1958	567	249,478	440	1,262	n.a.	50	9,900	—	—	—	—	32,890	16,000
1959	465	343,275	738	2,062	223,484	69	n.a.	—	—	—	—	44,138	16,000
1960	434	302,254	696	2,257	206,969	667	108,297	87	9,936	3,445	627,456	45,830	20,150
1961	450	457,785	1,017	2,241	234,815	1,124	138,710	387	41,967	4,202	873,277	55,748	25,250
1962	377	479,419	1,319	2,046	233,648	1,159	126,393	610	67,064	4,192	924,524	57,805	29,750
1963	403	864,438	2,145	1,797	244,333	959	110,183	1,226	90,017	4,385	1,308,971	72,121	32,750
1964	385	996,963	2,590	2,624	275,407	1,200	157,110	1,436	128,718	4,645	1,558,198	68,813	26,000
1965	354	970,185	2,741	1,714	309,439	882	103,326	1,204	91,672	4,154	1,474,622	81,403	26,000

Table 3.5

PURPOSES FOR WHICH THE LOANS WERE APPROVED

YEAR	INDUSTRIES		PURCHASE OF LORRIES & BUSES		ERECTION OF BUILDINGS RESIDENTIAL		ERECTION OF BUILDINGS INDUSTRIAL		TRADE & BUSINESS		PRINTING		SHOP-KEEPING & TRADE A.L.F.		SHOP-KEEPING & TRADE I.C.A. 1st Grant	
	No.	Amount (£)	No.	Amount (£)	No.	Amount (£)	No.	Amount (£)	No.	Amount (£)	No.	Amount (£)	No.	Amount (£)	No.	Amount (£)
1950	11	2,910	—	—	32	8.150	—	—	28	5,310	—	—	—	—	—	—
1951	13	7.465	—	—	112	72.351	—	—	156	53.814	—	—	—	—	—	—
1952	7	5.060	26	26.275	70	61,653	—	—	147	23,075	2	425	—	—	—	—
1953	7	10.250	16	15.725	35	27,403	—	—	120	23.035	1	500	—	—	—	—
1954	1	600	5	3.600	2	6,520	—	—	27	3,285	1	20*a*	—	—	—	—
1955	—	—	3	4,400	2	5.250	—	—	6	465	1	1,000	—	—	—	—
1956	—	—	1	5,000	15	14.945	—	—	23	5,290	—	—	—	—	—	—
1957	—	—	—	—	19	25,960	—	—	—	—	—	—	—	—	—	—
1958	3	180.300	—	—	12	10,550	—	—	8	790	—	—	—	—	—	—
1959	—	—	1	1,000	28	24.970	7	10,750*c*	9	2,200	—	—	n.a.	52,701	—	—
1960	4	49,250	1	448	19	55,040	5	11,190	18	5,075	—	—	197	51.350	197	81,167*b*
1961	4	6.515	—	—	29	25,145	8	39,318	13	9,600	—	—	n.a.	54.889	n.a.	70,800
1962	—	—	—	—	33	32,402	5	154,150	9	4.650	—	—	238	21,930	238	21.930
1963	8	3,435	—	—	22	15.305	7	225.300	5	825	—	—	—	n.a.	—	n.a.
1964	4	2,675	—	—	43	41,728	4	6,250	3	825	1	(Tanneries) 370	—	n.a.	—	n.a.
1965	4	12.650	58	91.741	6	46,250	4	5,700	—	—	—	—	—	n.a.	—	n.a.
TOTALS	66	281,110	111	148.189	481	473,622	40	452,658	572	138,239	6	2,315	—	180,870	435	173,897

a. This loan was made for the purchase of a Palantype Machine.
. This figure includes £25.567 of loans made by the ICA 2nd Grant.
c . Prior to 1959 figures for building loans were not broken down into those for residential and industrial buildings.

Table 3.6

U.C.S.B. STATEMENT OF LOAN INSTALMENTS AND INTEREST DUE BUT UNPAID

Year	INSTALMENT OVERDUE No.	INSTALMENT OVERDUE Amount (£)	% of total loans outstanding	INTEREST OVERDUE No.	INTEREST OVERDUE Amount (£)	TOTAL INSTALMENT AND INTEREST OVERDUE	% of total loans outstanding
1952	267	10,153	4.1	229	1,595	11,748	4.7
1953	457	28,966	9.5	367	5,085	34,051	11.1
1954	433	40,931	16.2	299	7,331	48,262	19.1
1955	331	41,234	19.1	238	6,190	47,424	22.0
1956	318	45,724	27.1	211	6,009	51,733	30.7
1957	309	44,076	28.9	219	5,979	50,055	32.8

Table 3.7

AVERAGE VALUES AND DIRECT COSTS PER LOAN ACCOUNT (£)

	VALUE				COSTS	
Year	UCSB	A.L.F.	1st Grant	2nd Grant	UCSB	ALF&ICA
1950	..	..	..	..	..	..
1951	231	..	..	..	7	..
1952	225	..	..	..	5	..
1953	238	..	..	..	10	..
1954	219	..	..	..	17	..
1955	218	..	..	..	8	..
1956	214	..	..	..	25	..
1957	209	..	..	..	30	..
1958	440	..	198	..	58	..
1959	738	108	..	..	95	..
1960	696	92	162	114	106	7
1961	1,017	105	123	108	124	7
1962	1,319	114	109	110	153	8
1963	2,145	136	115	73	179	8
1964	2,590	170	131	90	179	6
1965	2,741	181	117	76	230	7

APPENDIX 3.A

THE UGANDA CREDIT AND SAVINGS BANK ORDINANCE, 1950

(Section 29)

FORM OF APPLICATION FOR LOAN

Number.. Application Fee: Sh. 1.

Date..19............

The Uganda Credit and Savings Bank,
P.O. Box 331,
Kampala.

I/We hereby apply for a loan of Shillings..
(Shs............................) for a period of..
I/We am/are prepared to repay this loan with interest in yearly/half-yearly/quarterly instalments. (Strike out whichever is not applicable).
I/We am/are prepared to offer the following security.

(a) Mortgage on land
- (i) Leasehold or Freehold or Mailo...
- (ii) Register Volume..Folio..................
- (iii) Name of Estate..
- (iv) Number of acres...
- (v) State whether already mortgaged. If so, to whom:
  ....
  Give particulars of previous mortgage ....

(*b*) Equitable Mortgage—Deposit of Title Deeds—
- (i) Leasehold or Freehold or Mailo...
- (ii) Register Volume..Folio..............................
- (iii) Name of Estate...
- (iv) Number of acres...
- (v) State whether already mortgaged. If so, to whom:
  ....
  Give particulars of previous mortgage...
  ....

(*c*) Policy of Life Assurance:—
- (i) Name of Company...
- (ii) Amount of money assured..
- (iii) Date of Policy and of last payment of premium.......................
  ....
- (iv) Age of Insured...
- (v) Surrender value of Policy...

(*d*) Charge on Personal Property—
(Give details on property to be charged and situation).

4

The Financing and Promotion of Small Business and Industry in Uganda

Shortage of finance has persistently proved a formidable constraint in the promotion of Africans in business and industry. Hence apart from the UCSB experiment in development banking discussed in the last chapter, other schemes of financing and promoting Africans in business have been tried in an attempt to overcome this fundamental constraint. It is the purpose of this chapter, therefore, to review the operations and assess the successes and failures of some of these schemes.

Establishment of the Small Industries Development Fund. The establishment of the UCSB was closely followed by the establishment of the Uganda Development Corporation in 1952. While the two institutions were Government owned and were conceived at about the same time, their objectives were radically different. The one was designed to promote small African enterprise by facilitating loans to African commercial and industrial — in addition to agricultural — enterprise; the other was designed to promote large industrial undertakings in Uganda, usually in partnership with outside finance. While the Uganda Credit and Savings Bank was capitalized with an initial fund of over £500,000, the Uganda Development Corporation was capitalized with an initial fund of £5 million; the latter's activities now run into several million pounds' worth of business per annum.

In 1955, however, after three and a half years of successful operation of large undertakings, the Uganda Development Corporation found it fit not to be associated in the public's mind solely with the development of large projects. This probably would not be good for public relations. The Uganda Development Corporation therefore conceived of a small industries project and in 1955, set up a "Small Industries Fund" by allocating £20,000 from its profits which amounted to £263,049 that year. This special reserve fund was increased by a further appropriation of £50,000 in 1957. The purpose of the fund was to provide assistance to individuals or groups of individuals in setting up new small enterprise or in expanding existing enterprise in conditions where normal sources of industrial finance were not available and entrepreneurial ability was lacking. It was thus not intended to assist well developed businesses which had access to other sources of finance. Rather, its object was to assist the small man with some technical knowledge, business experience and some capital.

Though in many ways a forerunner of the African Business Promotion Limited, the Small Industries Scheme was not geared solely to the promotion of Africans in business. For instance, "the first £20,000 loan to which no conditions had been attached, was rather quickly taken up by two loans — one to a European firm which might well have found other sources of funds and which did not need technical knowledge."[1] The sum of £20,000 could, obviously, have served more people or firms, or served persons or firms in greater need. It was probably because of this that in 1957 conditions such as "the Corporation should only enter into schemes where technical knowledge and guidance are essential features" and that "full publicity should be given by the Corporation to the existence and purpose of the fund throughout the Territory" were attached by the Governor-in-Council.

Establishment of African Business Promotion Ltd. During the course of administering the Small Industries Scheme, the Uganda Development Corporation made some incidental contribution in the teaching to African loan applicants of some of the elementary principles of conducting business. But by 1962 these training facilities had not been set up in an organized way though the need for a much greater effort in this field had been fully recognized. And at that time, the need to encourage the full participation of Africans in the country's distributive trades had gathered new urgency. The Uganda Development Corporation therefore proposed the formation of a new subsidiary to be known as African Business Promotion Limited, with a broad objective of training Africans in all aspects of business at all levels of business employment. This new agency was also to offer services to small businesses. Previously, the World Bank had recommended that the Uganda Development Corporation organization should have as its main objective the training and development of entrepreneurs. It had recommended that the Uganda Development Corporation organization should work closely with the various loan funds; expand business training schemes; help in the interpretation and simplification of business regulations; and create a business advisory bureau and commercial services agency.[2] It was partly with regard to these functions that the ABP was conceived as an agency which would provide commercial services to African traders. But the fundamental consideration which led to the undertaking of the exercise was the need to adjust the imbalance in trade between Africans and others in the country. The ABP would achieve these objectives by employing supervisory staff who would assist individual African businessmen; it would institute a credit guarantee scheme to guarantee their credit with importers and manufacturers, or with shippers and merchants overseas; it would give assistance in assessing the market, in the submission of indents, on insurance, on freight and clearance, and on how to organize storage, sales and costing. These then were the considerations which led to the formulation of the ABP scheme.

By 1963, discussion had reached the final stages and on 17th July, 1963, African Business Promotion Limited was incorporated as a new subsidiary company of the Uganda Development Corporation.

Finances of the African Business Promotion. The liabilities and assets distribution of ABP is shown in Table 4.1. The ABP was originally financed by an initial issue of 2 shares of £1 each which were fully paid. The company did not become fully operative until 1964 when its authorized share capital was raised from £100 to £250,000 and fully paid up capital raised from £2 to £25,002. However, in the period 17th July to 31st December, 1963, the company still made a trading profit of £14,562 from which £5,460 taxation was deducted leaving a balance of £9,102 unappropriated profits to be carried forward. The ABP was initially operated as a subsidiary of the Small Industries Development Fund and had no personnel and overheads of its own. Since the company was appointed distributing agent of many of the UDC products, notably Nyanza textiles and cement, it was possible for the ABP to make a substantial profit during this formative period.

Apart from increasing the authorized as well as paid up share capital in 1964, retained profits have been the biggest source of funds for the ABP. The company made a trading profit of £62,804 in 1964 and after providing for taxation, a balance of £39,296 was added to the unappropriated profit of £9,102 brought forward from 1963, making a total of £48,398. Of this, £1,476 formation expenses was written off and 5 per cent interim dividend — accounting for £1,000 — was declared, leaving an unappropriated profit balance of £45,922 to be carried forward. The trading profit for the year 1965 was £67,649, and, after taxation of £23,467 and an interim dividend amounting to £5,000 which was declared during the year, left a consolidated balance of £85,104 to be carried forward. A good proportion of these very substantial profits was realized from ABP's investment in well established firms. However, though investment in these firms proved to be such an important means of earning profits, the main intention for making these investments in the first place was to introduce Africans' participation and thus create training facilities for Africans in the various commercial fields such as insurance and insurance broking, clearing and forwarding, manufacturers representation business, travel agency business, etc.

The assets structure of the company shows a very high liquidity ratio. In 1963 virtually 100 per cent of the company's funds was in the form of cash and current account with a fellow subsidiary company. In 1964 and 1965 cash and other liquid assets on current account, time deposits and current debts, accounted for 72 per cent and 81 per cent respectively of the total assets. These liquid assets were considerably more than adequate to back up credit guarantees of £4,275 and £74,182 outstanding on behalf of customers in 1964 and 1965.

Operations of the SIDF and ABP

Appraisal of Loan Applications (*SIDF*). In general, any individual or group of individuals in industry or any people wanting to set up business in industry, could apply for a loan in writing to the SIDF executive, setting out the purpose for which the loan was being applied. In addition to the provisions laid down in 1957 by the Governor-in-Council previously mentioned, four other provisions were imposed by the UDC itself in order to safeguard Government's internal guidance. These were:

"(a) that the application falls properly within the title of the fund — Development of *Small Industries*;

(b) that the applicant knows what he wants to do exactly and has a definite scheme which he is qualified to carry out;

(c) that the applicant has a record of proven performance in business life;

(d) that the application is not for the development of retail trade".[3]

"Small Industries" was defined by the UDC as "any project which will operate within a loan limit of £5,000 with the possibility of a further £2,500 for expansion".[4] In the light of experience these conditions were subsequently amplified in order to ensure, among other things:

"(a) that there is adequate evidence of (i) necessary technical skills, whether by previous experience or by training;
(ii) sufficient commercial knowledge and experience to manage and operate the business and to maintain proper records and books of account; or alternatively of the ability to learn, given reasonable assistance;
(iii) character and integrity of the applicant;

(b) that a full investigation is made of each application, that detailed capital and trading estimates are prepared and that these reflect reasonable prospects of success;

(c) that reasonable security is furnished in addition to a charge on the assets to be created by the loan."[5]

Also, in 1957, the Board of Directors agreed to establish a Small Industries Committee made up of three members of the Board, in order to ease administrative problems and ensure speedy processing of applications. As experience was gained the standard procedure for dealing with applications which finally evolved, involved the following routine.

All new applications were scrutinized by the Senior Executive in charge of the Small Industries Scheme. Applications which were clearly inadmissible were rejected and the applicant accordingly informed. Applications which were considered as potentially suitable for Small Industries Loans were processed by a Small Industries Section; each application was investigated by a member of this Section's staff in accordance with the principles laid down in "Guide to Project Investigation" — the "Bible" as this document was popularly known! It laid down the detailed procedure to be followed in making feasibility and viability studies of a project and assessing the merit of applications.

On completion of each investigation, a full report was submitted to the Senior Executive in charge. It included such things as: description of the project, summary of the investigation with conclusions, amount of loan and specific purposes for which the loan was required, period of grace considered necessary, period of loan and method and amount of repayments, security offered and form of security, method of advancing the loan, an estimate of follow-up service considered necessary, recommendation, and appendices giving factual, financial and costing data. If the application was considered to be unsatisfactory, it was either referred back for further information or amendment, or was rejected and the applicant informed. Applications considered satisfactory and endorsed by the Senior Executive in charge were forwarded to the General Manager of the UDC for the necessary investment authority.

The Chairman of the UDC has authority to approve loans not exceeding £1,000. Loans of over £1,000 but not exceeding £5,000 have to be approved by a committee of three Directors and loans of over £5,000 are approved by the UDC Board.

The period between submission of application and final grant of the loan may vary from one or two months to several months. If the amount involved exceeds £5,000 there might be considerable delay pending a full meeting of the UDC Board.

Appraisdl of Assistance to Traders' Applications (ABP). The ABP procedure of assessing the merits of applications was essentially similar to the basic standard procedure of the SIDF except that the ABP's procedure was modified to suit its special conditions and the kind of facilities it offered. In the first place, ABP did not give any loans but only offered facilities outlined below. In the second place, ABP assisted only going concerns in trade and it did not deal with anyone wishing to set up in business for the first time. Hence application for assistance took the form of answering a fairly lengthy and comprehensive printed questionnaire. This questionnaire included such particulars as name and address of the applicant, type of business engaged in, type of legal organization of the business, detailed present value of the business, purpose and detailed expected costings and revenues of the proposed expansion, the security to be offered, the standard of books of account, experience, ownership composition, size of family, etc. As the ABP had four field officers — one in each Region — plus one field accountant for accounting services, it was possible for the ABP quickly to visit the premises of the applicant for an initial on-the-spot investigation and to check up on the statements given in the questionnaire. Much of the original sifting of applications was done at this stage. Applications which were clearly inadmissible were rejected at this stage and the applicant informed. Any applications considered as potentially suitable were forwarded together with full reports, analyses, conclusions and recommendations, etc. to the ABP Board of Directors for consideration. Very few applications were rejected at this stage since much of the basic groundwork would have been done in the field. However, approval of applications was heavily influenced by three things: namely, the record of past performance and experience, the presence of security — usually in the form of stock-in-trade — whose value had to be greater than the requested amount of assistance, and the standard of books of account.

Another important difference between the procedure followed in processing ABP traders' applications and those of SIDF was that in the case of ABP all applications were considered by the Executive Committee. However, with expansion of the activities of the National Trading Corporation into which ABP has now been merged, it is considered that the Chairman of the Corporation will be given similar authority to the UDC Chairman in approving applications for loans up to a specified ceiling.

Facilities Offered by the ABP. The ABP operated five main schemes and three main services. The schemes included credit-guarantees, discounting, confirming, hire-purchase guarantee and commercial bank loans; the services included auditing/accounting, wholesaling and distribution.

The philosophy behind the ABP Credit-Guarantee Scheme was that most traders operating efficiently and in good localities could increase their sales if they carried more stocks. But many were unable to obtain credit from their suppliers as the lack of integrity in others had resulted in a reluctance to develop credit-trading for Africans. Often the suppliers who gave credit only did so in order to offload dead-stock. However, a good wholesaler would neither cheat nor refuse to give credit if he had some assurance that in gaining sales he was not risking bad debts. Nor would he charge excessively for his services.

If the ABP therefore found a good retailer buying from a good wholesaler, it was prepared to guarantee thirty or sixty days credit supply of stocks against a 1 per cent commission. This enabled the retailer to sell all or most of the goods before payment, thus promoting his sales and profits. His normal capital would still be available for low-sale lines, the credit-guarantee applying only to his main lines, i.e. those items which he could buy in wholesale quantities from one or two selected and bona-fide wholesalers. (A wholesaler/retailer who competed against his own customers was not considered to be a bona-fide wholesaler).

Normally, the ABP did not permit the credit-guarantee to exceed 25 per cent of a trader's independent stocks. However, it could allow the guarantee to operate as often as desired, providing the total credit outstanding at any time did not exceed the amount guaranteed. But as sales and stocks increased, it could increase the ceiling of the guarantee.

The argument for the ABP's Discounting Scheme was that many African traders desired to compete in tendering for supplies to hospitals, schools, prisons and other institutions but they too frequently found that the period between supply and payment was too long for them to lay out their precious capital. The business therefore passed to the traders with more capital to spare.

ABP could pay 90 per cent of any account to those traders who had successfully tendered and supplied goods to their respective buyers, on presentation to the ABP offices of invoices or delivery notes certified by whoever was in charge. The remaining 10 per cent less $1\frac{1}{4}$ commission was then paid after collecting the payment from the buyers. This scheme thus brought tendering down to almost "cash" business.

There were hardly any conditions for traders who were interested in utilizing this scheme. What they had to do was to apply either personally or in writing to ABP. ABP would then write to the institutions concerned asking them to pay the accounts to ABP instead of to the trader when the accounts were due for settlement. However, the businessmen who wished to make use of this scheme still had to submit their books to the ABP Executive Committee as in the case of the Credit-Guarantee and Confirming Schemes.

Bigger traders who wished to employ direct-importing methods and consequently low prices could ask ABP to "confirm" their indents. This facility was mainly for traders who were unknown to the exporters since these exporters had no guarantee of payment. The order was passed through ABP who guaranteed payment on delivery. ABP released the goods to the traders on sixty day credit terms. This enabled the trader again to sell his goods before payment. The ABP charged a commission of 2 per cent plus the bank rate of interest on the capital employed. The ABP's argument behind this scheme was that the trader would naturally gain a considerable increase of profit as a direct-importer unless, of course, he bought more than he could sell within a reasonable period of time, thus tying down his own capital. The ABP therefore advised in every case where it was consulted whether direct-importing was preferable to dealing through a local manufacturer's representative and whether the quantities abroad would attract a lower price.

The case for the Hire-Purchase Guarantee Scheme was that if an African company required a vehicle to undertake *essential* deliveries or remove expensive hire charges on collecting goods, the ABP could consider acting as guarantor in a Hire-Purchase Agreement. The Finance company or dealer would then usually agree to a low rate of interest on the payment of instalments. However, the buyer was obliged to produce at least 25 per cent of the vehicle cost in cash or a vehicle in part-exchange. Details of various vehicle prices and repayment schedules are shown in Table 4.2.

In connection with Commercial Bank Loans, it was only in extremely exceptional circumstances that ABP would act as guarantor on loans made by the Uganda Commercial Bank to African traders recommended by ABP. These would be granted at a reasonable interest rate but would never be granted where credit facilities could equally suffice.

In addition to these schemes, ABP provided the services of an Auditor/Accountant to African traders on request. The Auditor/Accountant was able to advise on methods of book-keeping, to audit the accounts of private traders and partnerships, and to prepare for audit the accounts of Limited Liability Companies. ABP charged nothing for advisory services but nominal charges were asked for audits and audit preparations.

By the time ABP was merged into the National Trading Corporation, it was doing everything possible to establish and strengthen African wholesale companies especially in rural areas where African trade cannot satisfactorily develop whilst Asian retailer/wholesalers are the main sources of supply. ABP had established eighteen such companies by the time of the merger.

ABP itself had also started importing for direct sale to African traders, particularly goods which had hitherto gone through many non-African hands in an extended chain from Mombasa to the rural villages. It had imported rice, crockery, cutlery, hardware and clothing to the value of £180,000. These goods went direct to African companies at true wholesale prices. ABP was again itself a main distributor for Nyanza textiles, cement, Chillington hoes and other locally produced products. It distributed these through African Wholesale Companies and where not possible through its depots in different regions.

By the time of the merger, ABP was also assisting African exporters to get established in European markets, particularly for fruit and vegetables. Perhaps the next step will be the building up of a National Export Company operating through the National Trading Corporation (NTC). The NTC came into being as a result of a merger between ABP and the African Trade Development Section of the Ministry of Commerce and Industries. However, though the activities of ABP have been discussed at length, the experience and activities of the African Trade Development Section cannot but be very briefly mentioned here.

The African Trade Development Section

The African Trade Development Section came into being in 1955 as a result of a report of a committee of inquiry which had been appointed by the then Governor to inquire into, and to make recommendations for, the advancement of Africans in Trade and Commerce. The activities of the Trade Development Section have since been based more or less on this committee's report, popularly known as the "Maybury Report."[6] The Trade Development Section's duties and activities included among other things, organizing traders' District shows and courses, both in the Districts and at Nsamizi; organizing Traders Associations and Buying Groups; guiding and assisting in the formation and registration of partnerships and companies; assessing and recommendation of loans; and erecting, supervising and administering premises for letting to African traders in big commercial towns.

During its life the Trade Development Section helped in the formation of some 315 traders' associations throughout the country with a membership of more than 3,000 traders. These are affiliated to the Uganda National Traders' Association, an organization that is likely to become a powerful mouthpiece of African traders in Uganda. One of the most important functions of traders' associations is to enable traders to discuss and make representations on matters of common interest. The Government or any other institution would find it easy to disseminate information to traders through such associations. Moreover, traders' associations could prove to be important stepping stones in the formation of partnerships and companies which may well become the big businesses of the future.

Apart from traders' associations the Trade Development Section helped in the formation of thirty buying groups, forty-one partnerships and more than 130 private and public retail and wholesale companies. In addition, the Trade Development Section helped in erecting, supervising and administering more than 158 trade premises worth more than Shs. 4 million. These premises were erected in various towns in Uganda for letting to African businessmen.

As a result of these activities the Trade Development Section was able to help in increasing the volume of trade handled by African traders. The Section estimated that while in 1958 only some £10 million worth or 18 per cent of retail trade was handled by Africans, at the end of 1966 some £23 million worth or 42 per cent of retail trade passed through African businessmen.

Analysis and Appraisal of Operations of the SIDF and ABP

The performance record of the SIDF is shown in Table 4.3. In all, 64 small industries have been assisted, involving a total sum of £98,051 in loans advanced. This represents an arithmetical average of £1,532 per project assisted. However, the individual amounts advanced range from as low as £25 to £10,500. The list of projects which have been assisted ranges from agriculture, forestry and mining through miscellaneous manufacturing industries to tertiary services such as transportation and hairdressing. Of the 64 small projects assisted, 52 were owned and operated by Africans and the remaining 12 were owned and operated by non-Africans. Again, out of these 64 small firms, 46 firms (72 per cent) were individual proprietorships and the remaining 18 firms (28 per cent) were either co-operatives, partnerships or private companies.

Out of the 64 loans granted, 6 loans (9 per cent) involving a total amount of £11,775 — accounting for 12 per cent of the total volume of loans granted — were paid in full. Of these 6 firms, 2 were registered companies accounting for £11,000 of the £11,775 — the remaining 4 firms being individual proprietorships accounting for £775 of the total £11,775 fully paid. Twenty-eight projects or 44 per cent of the total projects were failures, partly as a result of which £16,638 or 17 per cent of the total volume of loans granted was written off. Of these 28 failures, 24 were owned and run by individual proprietors; the remaining 4 firms were registered companies. Among the failures, construction and mining carried the greatest weight by volume, accounting for £7,671 or 46 per cent of the total amount of loans written off. Tailoring and carpentry were the biggest culprits by number (8 out of 28 or 29 per cent of the total failures), accounting for 16 per cent of the total amount of loans written off. Thirty-six projects (56 per cent) were still in existence at the time of writing and were partly responsible for the total amount of £43,387 of loans which was still outstanding — accounting for 44 per cent of the total volume of loans granted.

There is no doubt that the SIDF scheme of the UDC has performed a positive function in the economy of Uganda. It has played a big role in stimulating and assisting African enterprise in the field of small industries. It has made it possible to launch a number of industrial projects with African participation which would never otherwise have materialized and many of them have been successful. In doing so it has played a valuable educational function in addition to offering credit facilities to Africans upon whose enterprise the economic future of the country is ultimately to depend. To that extent therefore, the SIDF scheme of UDC has been an instrument of economic development in Uganda.

It would seem, however, that there is still considerable room for improvement. Perhaps the whole concept of small industries needs to be revised. There probably have been too many small loans lent out to individuals who never were full-time industrial businessmen but who took to small one-man-show manufacturing industries as a sideline to supplement their income from a full-time job elsewhere. As might be expected, the consequent lack of full-time supervision and attention resulted in a high proportion of failures of such projects.

Though small businesses in Uganda are really very small, the standard of small industries in Uganda will perhaps have to be raised. The UDC will perhaps have to raise its investment in small industries. For only then will it be possible to acquire some qualified people on functional bases. To successfully launch and operate a vegetable canning project, for instance, one would need to have a chemist, a marketing officer and perhaps a research officer. This kind of project would of course involve bigger loans and possibly UDC equity participation to begin with. But people who take bigger loans are perhaps better risks as they can afford to hire competent and responsible assistants. Assisting this kind of industrial project would be in sharp contrast to assisting say a carpenter (or a fisherman) whose only equipment would be one or two saws (or one or two boats) and over whom UDC would have no control whatsoever. If the UDC, with all its vast experience in big industries, should find a small industry project viable, a good procedure would be that the UDC gets informed on the amount of private indigenous equity capital likely to be forthcoming, so that the UDC invests the balance with a view to selling out its share capital to Africans when the project had been established firmly on the ground, say after five years. If a small industrial project shows good signs of promise, then the UDC should actively participate in it and have active management in it at least in the project's formative years.

Table 4.4 shows the performance record of ABP. There would seem to be no doubt that the ABP started off on the right foot. For in the short space of three years of its existence, the ABP managed to bring £500,000 worth of business through its Credit Guarantee Scheme alone. This figure is calculated from the commission ABP received from suppliers based on the credit sales involved. Although ABP suffered some amount of defaults, this was clearly minimal. Only about one third of the commission income was lost to ABP on the honouring of their guarantees following defaults.

However, Bill Discounting was perhaps ABP's best scheme. For ABP paid out some £500,000 for supplies to hospitals, schools, prisons and other Government institutions and later recovered the same amount from Government Departments. Previously this kind of volume of business was virtually completely closed to Africans as they could not raise sufficient capital to make several large purchases whilst awaiting payments. At the time of writing the scheme was understood to be gathering momentum rapidly and it was hoped that more tenders would soon be passing through indigenous hands.

The Confirming Scheme, on the other hand, had a rather limited use mainly because few African traders were big enough yet to import directly. But even then goods worth over £10,000 were imported by a few progressive merchants around Kampala.

Through its Hire Purchase Guarantee scheme ABP assisted some 22 African Companies to acquire lorries in order to enable them to undertake essential deliveries or to remove expensive hire charges on collection of goods.

The operations of ABP reflect correctly the UDC concept of subsidiary companies. The UDC emphasizes that its subsidiary companies are not scholastic institutions. They are there to make profitable operations. Hence the first material principle in the training of Africans within business must be carried out at a profit. But ABP was extremely lucky in this respect. Accepting the fact that the majority of the people of Uganda were not natural traders, ABP recruited a staff of thirty officers, eleven of whom were in the field and nineteen at headquarters; a further two officers were under training at the time of its merger into the National Trading Corporation. It also ran three depots: one at Mbale, one in Gulu and one in Kampala.

The bulk of ABP's total revenue was earned from its distributive services and the total wages bill could easily be covered from this source. Other sources of revenue were dividends from holding companies and commission charges. These, too, could easily have covered the costs of the services.

Conclusions

The operations of ABP differed from those of UCSB in two major respects. In the first place, UCSB loans were basically medium- and long-term loans while ABP concentrated on short-term credit. The fact that through its discounting scheme ABP managed to put such a large volume of business into the hands of African businessmen in so short a time, is eloquent evidence of the existence of a big gap in the financial structures in Uganda. One would have thought that the banking institutions in Uganda would have looked on this kind of discounting as "their type of business". One would have thought discounting of this nature was the normal short-term virtually self-liquidating type of loan that the banking institutions traditionally preferred. But either there was lack of initiative or it was still felt that African entrepreneurs were not safe enough even for this kind of business. It was therefore still necessary to create such an organization as the ABP to provide even this fundamental facility to African small businessmen.

ABP was apparently much more successful in its field of providing short-term credit than UCSB was in providing medium- and long-term finance to small African enterprise. Guarantee credit, for instance, was obviously much less liable to misuse than a cash loan of say Shs. 5,000/- which could easily be misunderstood for consumable income. Moreover, the UCSB loans were granted for a period of years at a rate of interest which ranged from six to seven and a half per cent per annum. To budget for premium instalment and interest repayments over a period of years probably required more planning skills than was within the reach of most African small businessmen. But with credit guarantee there would be no need to budget for this.

In the second place, ABP, as opposed to the UCSB, had a staff of field officers who were constantly in the field. Consequently, ABP was able to carry out a more detailed investigation of applications and subsequently had more control over its customers than did the UCSB. The ABP as opposed to the UCSB was constantly able to investigate thoroughly the suitability not only of the project but of the applicant as well. But once the UCSB issued money to their customer, they had virtually no more control over it. For instance, there ought to have been some form of liaison between the SIDF and UCSB at least for the former to help the latter on the technical side. But at the time of writing the SIDF did not have sufficient revolving funds to continue lending to small industries.

The failure on the part of UCSB to publicize the kind of facilities it had to offer to African small businessmen has already been mentioned. This was in sharp contrast to the widely popular and informative ABP monthly publication. However, a serious shortcoming of the ABP was that it neither catered for any budding beginning businessmen, nor did it cater for any on-going businessmen who wanted to make some medium- or long-term capital expansion of their businesses.

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1. C. T. Richardson, *Final Report, Small Industries Development* (April 1961) p. 12.
2. International Bank for Reconstruction and Development, *The Economic Development of Uganda* (Baltimore: The John Hopkins Press 1962) pp. 291-292.
3. Quoted from Henry B. Thomas, *Case Studies on the Uganda Development Corporation* (February 1963) pp. 3, 4.
4. Files of the Development Division of the UDC.
5. Ibid.
6. See Uganda Protectorate, *The Advancement of Africans in Trade* (Entebbe: Government Printer 1955).

Table 4.1

AFRICAN BUSINESS PROMOTION LIMITED
ANNUAL BALANCE SHEETS (£)

LIABILITIES	1963	1964	1965
Share Capital			
Authorized:			
100 Ordinary Shares of Shs. 20/- each (1963)	100		
250,000 Ordinary Shares of Shs. 20/- each (1964)		250,000	250,000
Issued:			
2 Ordinary Shares of Shs. 20/- fully paid 249,998 Ordinary Shares of Shs.	2	2	2
20/- each	—	25,000	25,000
Shs. 2/- paid (1964)	—	25,000	25,000
Revenue Reserve			
Unappropriated Profits	9,102	45,922	85,104
Current Liabilities and Provisions			
Holding Company—UDC Ltd. ..	1,639	75	1,179
Fellow Subsidiary Company	—	11	11,179
Creditors, Provisions and Accrued Charges	10	1,257	6,034
Taxation	5,460	23,508	21,900
	16,213	95,775	150,398

ASSETS	1963	1964	1965
Fixed Assets:			
Motor Vehicles	—	548	—
Furniture & Equipment	—	2,183	2,615
Associated Companies Shares at Cost			
Hogg Robinson & Capel-Cure (U) Ltd.	—	3,900	3,900
Equatorial Agencies Ltd.	—	10,000	9,000
Associated Traders (U) Ltd. ..	—	10,000	10,000
Nyanza Textile Industries Ltd. ..	—		700
Uganda Cement Industries Ltd. ..	—		630
Uganda Crane Industries Ltd. ..	—		800
Uganda Consolidated Properties Ltd.	—		480
Current Assets			
Stock of Umbrellas and Hoes at Cost		—	713
Debtors, Deposits and Prepayments		1,601	71,599
Current Account—Fellow Subsidiary Company	7,631	27,060	22,074
Deposit—Ugadev Bank Ltd.—Fellow Subsidiary Company ..		37,040	8,925
Cash at Bank and in Hand	8,446	3,443	18,962
Intangible Assets:			
Formation Expenses	136		
	16,213	95,775	150,398
Guarantees Outstanding on Behalf of Customers		4,275	74,182

Source: *UDC Annual Reports.*

Table 4.2

SCHEDULE OF PAYMENTS

HIRE-PURCHASE SCHEME WITH GUARANTEE BY AFRICAN BUSINESS PROMOTION LIMITED

	Cortina 1500 cc Saloon	Cortina 1500 cc Est. Car	Corsair 1500 cc D/LuxeSal	Zephyr 4 Saloon	Lorry K./300 3 ton	K. 500 5 ton Truck	K. 700 7 ton Truck	Anglia350 7 cwt. Standard	Anglia350 7 cwt. D/Luxe	Thames 800 R/Door
Retail Price (Shs.)	19,000	20,000	20,000	21,800	35,700	42,500	45,500	14,900	15,500	20,600
Amount of Deposit.. ..	4,750	5,000	5,000	5,450	8,925	10,625	11,375	3,725	3,875	5,150
Net Balance	14,250	15,000	15,000	16,350	26,775	31,875	34,125	11,175	11,625	15,450
Interest	912	960	960	1,046	1,713	2,040	2,184	715	745	990
Total H.P. Balance ..	15,162	15,960	15,960	17,396	28,488	33,915	36,309	11,890	12,370	16,440
17 Monthly Payments ..	842	887	887	966	1,583	1,884	2,017	660	687	913
1 Final Payament	848	881	881	974	1,577	1,887	2,020	670	691	919
Discount Payment to ABP to cover costs of scheme operation*	950	1,000	1,000	1,090	1,785	2,125	2,275	745	775	1,030

Payment of Deposit, Insurance for total period of hire, Licence and Fees, to be paid cash prior to delivery. Insurance to be endorsed with Uganda Company's interest and registration to be done in the Joint Names of Uganda Company and Hirer. No vehicle to be hired or delivered, without a letter of authority from the General Manager, African Business Promotion Limited.

* African Business Promotion Limited on collection of discount at the conclusion of the credit term, will pass half of the rebated sum to the hirer if the agreement has been fully honoured and the account satisfactorily conducted.

Source: *Files of ABP.*

Table 4.3

SMALL INDUSTRIES DEVELOPMENT FUND—PERFORMANCE RECORD

No.	Industry	Code	Organization Single	Organization Others	Amount of Loan Advanced £	Existing	Failures	Amount of Loan written off £	Loan Repaid in Full £	Amount of Loan outstanding £
2	Agriculture	010	2	..	2,776	..	2	1,376	..	1,224
6	Forestry, Hunting, Fishing ..	021—099	5	1	10,444	4	2	..	..	9,044
2	Mining	122	1	1	3,750	..	2	2,921	1	170
10	Manufacture of Food Prod. ..	200—219	5	5	21,524	8	2	454	..	11,212
1	Knitting	232	..	1	1,180	1	..	..	..	565
1	Manufacture of Footwear ..	241	1	..	2,780	1	..	..	..	2,158
5	Tailoring	243	5	..	3,936	1	4	1,557	..	109
9	Carpentry	250	7	2	6,885	5	4	1,073	1	5,184
1	Cane Weaving	260	1	..	450	..	1	450	..	..
2	Printing	280	2	..	1,012	..	2	988	..	..
1	Tannery	292	1	..	370	..	1	..	..	350
2	Mnfr. of Chemical Prods. ..	312&319	1	1	1,175	..	2	1,000	1	..
4	Block Making	331	2	2	8,214	3	1	15	..	7,258
2	Pottery	339	1	1	2,186	2	..	..	..	1,535
2	Light Engineering	350	2	..	550	2	..	..	..	190
1	Electrical Engineering	370	1	..	94	1	..	..	..	47
4	Boat Building	381	1	3	4,133	3	1	..	1	419
3	Repairing Motor Vehicles ..	384	3	..	3,777	2	1	1,487	1	1,408
3	Construction	400	2	1	21,887	2	1	4,750	1	2,487
1	Petrol Retailing	612	1	..	443	..	1	332	..	..
1	Transportation	714	1	..	235	..	1	235	..	..
1	Hair Dressing	845	1	..	250	1	..	..	..	27
64			46	18	98,051	36	28	16,638	6	43,387

Source: *Files of the Development Division of the UDC.*

Table 4.4

ABP PERFORMANCE RECORD

	January 1965	December 1965	October 1966
CREDIT—GUARANTEES			
No. of Credit—Guarantees	14	194	324
Total Value	£10,175	£74,475	£126,800
Amount Operative	4,375	42,325	72,572
Tea Guarantees	—	110	—
Default on all Guarantees	Nil	710	1,549
Less: recovered from sale of assets ..	—	531	n.a.
		179	
Credit—Guarantee Commission Received ..	13	117	n.a.
Income to date	27	525	1,584
CONFIRMING			
No. of Confirming Approved	4	11	13
Total Value	£6,000	£11,750	£13,750
Amount Operative	2,284	3,709	4,752
Commission Received	Nil	551	411
Defaults	Nil	Nil	Nil
DISCOUNTING			
No. of Traders Discounting Operative ..	1	35	48
Amount Operative	£507	£19,581	£24,839
Commission Received	3	64	n.a.
Commission and Interest Received to date ..	29	669	2,148
HIRE-PURCHASE SCHEME			
No. of Guarantees on vehicles	—	—	22
Total Value	—	—	£41,898
Commission Received	—	—	2,090

Source: *Files of ABP*

5

Results of a Survey on the Financing of Small-Scale Enterprise in Uganda

Introduction

The main purpose of this chapter is to examine the financial problems of small-scale enterprise in Uganda basically from the point of view of the entrepreneurs themselves and only partially from that of the economist. It presents the results of an inquiry into the financial affairs of small-scale enterprise in Uganda which was carried out in June, July and August, 1966. It gives some factual information on the main sources of funds available to small firms in Uganda and the uses to which these funds have been put by the entrepreneurs. It also gives some idea about orders of magnitude of demand for funds as seen by the small entrepreneurs themselves. In this examination, however, we do not attempt to make any comprehensive analysis of the projects involved, from the standpoint of assessing the economic viability of these projects. Nor has the analysis of the data from the survey been elaborate or statistical. Rather, the results are presented as a description of the salient features which, it is hoped, will provide a base for discussion of the important practical problems involved. But practical problems are still of much interest as statistical elaborations.

The Survey. The inquiry into the financial and other problems of small enterprise in Uganda was carried out by means of a survey. Experience, however, had already shown that the response rate of small firms to a mail survey type of questionnaire was very low and that the quality of the answers from small firms was poor.[1] It was therefore decided to conduct the survey on an interview basis with the interviewers going to the premises of firms and conducting the interview on the spot. The interview was conducted from a printed questionnaire (shown in Appendix 5.A) which contained questions dealing with the general characteristics of the firm, employment levels, the sources and uses of funds, the present demand for capital funds and planned sources of the same; the questionnaire also contained a number of miscellaneous questions which dealt with such aspects as market structure, outstanding problems, the role of government and constraints to expansion.

One of the main objectives of the survey was the collection of accounts from many small firms who do not have the obligation to file these accounts with the Registrar of Companies. In the event, however, this aim proved to be impossible to achieve. For out of 228 small firms who agreed to answer the questionnaire, only a few firms were willing to attach the balance sheet and profit and loss statements for the previous accounting year. There is thus no independent check on the accuracy of the figures reported in the survey. To what extent, therefore, the data collected give a true and fair picture of the actual state of affairs is difficult to ascertain. At best, the data collected was approximate and the picture of the financial state of affairs in this sector, drawn from such data, can only be approximate. Under the circumstances, therefore, no pretence was made to calculate such potentially interesting aggregate measures as growth rates, output, value added or productivity in this sector of the economy.

A second main objective of the survey was the collection of non-financial "demographic" information about the behaviour and background of small firms in Uganda. In the event, results on this aspect were considerably more valuable than the quantitative data.

The Sample

Selection. The problems and difficulties of defining a small-scale enterprise have already been discussed in Chapter One. It had at first been suggested that a good working definition for small enterprises in Uganda would be one emphasizing those firms which did not have access to international and local money and capital markets. In practice, however, this definition soon proved to be not so workable as had been hoped, and instead an employment measure was chosen. But since a financial definition was also necessary, it was decided to draw the line at £50,000 of capital investment. On the basis of this definition a sample pilot survey of forty-two firms was carried out in April, 1966. This sample which was stratified only by location and capital investment was selected from a sampling frame of some 2,400 private companies whose data were extracted from the Registrar of Companies. However, this original sampling frame of 2,400 firms had to be abandoned because of inherent defects discovered as a result of the pilot survey. For, among other things, out of the forty-two firms in the sample, eight had long closed down their businesses — some of these had closed their businesses down as far back as four years ago — and five others were not known at the addresses given. Hence 31% of the sample had been rendered useless because of defects in the frame of reference. This frame of reference had therefore to be abandoned.

A more comprehensive and more up-to-date list of small enterprises was therefore subsequently drawn up. This comprised 2,686 firms, 1,377 of which (51%) were located in the Buganda Region, 806 (30%) in the Eastern Region, 269 (10%) in the Western Region and 234 (9%) in the Northern Region. Thus 81% of the total firms in this sector was located in Buganda and Eastern Regions. But owing to practical limitations, this sampling frame had to be reduced to 1,564 firms which were located in the Masaka — Kampala — Jinja area, and in Soroti, Gulu and Mbarara towns. It was from this list that a random sample of 522 firms was finally drawn. The final sample was then stratified by size. It comprised 356 (68%) very small firms (consisting of 220 firms (42%) employing 1-4 persons and 136 firms (26%) employing 5-9 persons), and 166 medium small firms (32%), consisting of 93 firms (18%) employing 10-24 persons and 73 firms (14%) employing over 25 persons.

No attempt was made to stratify the sample by industry. However, the composition of the sample by industry is given in Table 5.1a. An attempt to stratify the sample by racial ownership was given up when it was realized that the racial identity of ownership could not be ascertained from the business name of the firm. However, the racial ownership of those firms who responded to the questionnaire is given in Table 5.4.

The response to the questionnaire was about as good as could have been expected under the circumstances. Of the 522 firms visited, 97 firms (18.6%) either flatly refused to co-operate or gave such little information that it was of no use; 20 firms (3.8%) had closed down their businesses and another 46 firms (8.8%) were subsequently found to be either too big or international companies and were accordingly excluded. Another 85 firms (16.3%) were excluded for various other reasons: lack of communication, for instance, between interviewer and management or because of duplication when a firm would be found to have been covered under another name. This left an effective sample of 228 firms representing a response rate of 43.7%. These responses, however, consisted of different degrees of co-operativeness.

Some Characteristics of the Sample

In a study of this kind, the characteristics that need to be examined include such basic classifications as: type of industry; various measures of size and rates of growth; turnover; market structure; age structure; and ownership and control. However, owing to the difficulties already mentioned, the requisite data regarding some of these were either very approximate or non-obtainable. Nevertheless, the following few paragraphs will, perhaps, give a general idea about the characteristics of small enterprise in Uganda.

Size. As previously mentioned, it was the employment measure which was chosen as the most suitable basic classification in drawing up the sample. But a few other *ex post* measures of size were also examined. Table 5.2a shows the size distribution of the sample by employment measure. There was one firm in the sample which employed only one person; 73 firms comprising 32% of the sample employed between 2 and 4 persons. This group employed 222 people accounting for 10% of the total employment in the sample. Another 70 firms (31%) employed between 5 and 9 and were responsible for employing 450 people — accounting for 20% of the total employment in the sample. These two groups are the ones which have been referred to as the "very" small firms. The other two groups, employing between 10 and 24, and 25 and 49 persons, respectively, have been referred to as the "medium" small firms. Though constituting only a third of the sample, the medium small firms employed approximately 70% of the total employment in the sample. Hence, the very small firms constituting about two-thirds of the sample, employed less than a third of the total labour force in the sample. Of the small section of firms in the sample who declined to reveal the level of their employment, four were in the very small and two in the medium small group, respectively.

The size distribution using gross assets as a measure, is given in Table 5.2b for the 182 firms who responded to the question regarding their total gross assets. Of these, there were 10 firms whose gross assets were less than £250 — the total value of their assets being £1,760. They owned less than 0.1% of the total assets of the responding firms. About one-third of the responding firms had assets ranging between £750 and £4,500 but owned 5.6% of the total assets. In fact, nearly two-thirds of the responding firms had assets of less than £10,000 and owned only

16.7% of the total assets. The remaining 83.3% of the assets was owned by one-third of the medium small firms. In particular, 8 firms who had assets of over £50,000 owned almost 30% of the total assets reported.

Table 5.2c shows the size distribution of firms in the sample using turnover as a size measure. There were 202 firms who responded to the question on approximate annual turnover. Of these, 6 firms reported an annual turnover of less than £750 and 39 firms reported a turnover of between £750 and £5,000. The largest number of firms (28.7%) however, reported a turnover of between £5,000 and £25,000. Just a little over two-thirds of the responding firms had an annual turnover of less than £25,000 but they accounted for only 15.9% of the total volume of sales. The remaining 84% of the total volume of turnover was accounted for by the little less than one-third medium small firms. In particular, 14 firms whose turnover was £100,000 and over accounted for nearly 50% of the whole volume of turnover.

It is significant that the ranking of firms varied very little with the size measure chosen, and this is probably what matters most in a study of this kind. It would, of course, have been ideal if measures in terms of output or value added had also been possible; and in a financial study, perhaps a financial measure such as gross total assets is the more appropriate measure but it was the employment measure — with its shortcomings — which probably gave the firmest and most accurate figures. As has been mentioned, virtually all respondents refused to hand over their accounts. The assets and turnover figures were always approximate and perhaps in some cases no more than mere guesses. There was, for instance, one respondent who employed 35 persons but who reported an annual turnover of £6,000. In one or two other instances the annual turnover given was less than the total credit reported as being extended during the course of the year! However, Table 5.3 attempts to consolidate the data on the various size measures into one table. The "very small" firms, comprising about two-thirds of the responding firms, accounted for 30% of total employment, 36% of total turnover, and owned 48% of the total gross assets in the sample.

Industry. As far as possible firms in the sample were classified according to the U.N. International Standard Industrial Classification. Table 5.1b shows composition of the sample by industry or service. The original sample of 522 firms was drawn up by a process of random sampling, hence Table 5.1b perhaps gives a rough idea about size and industrial distribution and the predominance of very small enterprises in Uganda. It is clear that the activities of small firms is highly concentrated in the wholesale and retail trades, which accounted for well over 50% of the firms in the sample. Manufacturing accounted for only 25% of the firms in the sample. In the manufacturing sector itself, enterprises were concentrated in the manufacture of furniture, footwear and wearing apparel as well as in the repair of motor vehicles and cycles.

Other Characteristics. The field of ownership, control and management may be one which poses special problems to the small firm. Respondents were therefore asked to indicate, not only the legal form of the firm, but also some information about ownership and management. Of the 226 firms who responded, 89 firms (39.4%) were individual proprietorships while 48 firms (21.2%) were partnerships and the remaining 89 firms (39.4%) registered companies. The 137 registered companies and partnerships were owned by 541 persons, 338 of whom were also directors belonging to groups of one family. There was only one company with as many as 30 shareholders; two others had 20 shareholders each. However, 81% of the companies and partnerships were owned by between 2 and 5 persons. Of the 205 firms who responded to the question on management and educational attainment, 60 managers had either attained only primary education or had had no formal education at all; 19 had attained a junior secondary education; 95 had attained a senior secondary education; and only 31 had attained a professional or university education. Most of the managers had gained experience as employees elsewhere in the same or similar lines of business.

The composition of the sample by racial ownership, is given in Table 5.4. Of the 225 responding firms, 199 firms (88.4%) were owned by Asians; 11 firms (4.9%) by Africans and 7 firms (3.1%) by Europeans. The remaining 8 firms (3.8%) were owned by mixed races.

Rates of Growth. Although it had been realized from the beginning how important rates of growth would be to a study of this kind (since rates of growth may have an important bearing on the financial behaviour of small firms) in practice it was not possible to get an appropriate measure of any kind. An employment measure was attempted when respondents were asked to indicate their present levels of employment as compared to their 1961 or original employment. The attempt was subsequently abandoned, however, when the question was found to have been misunderstood by the respondents. Instead of giving 1961 or original employment figure — whichever was the later — respondents tended to give levels of original employment irrespective of the date when they first set up in business. Another attempt which would have measured rates of growth in terms of gross total assets was also given up because respondents could not give the appropriate figures for the required dates. If it had been possible to obtain either of these measures, the over-all picture would not have suffered from the absence of data on mortality rates, since only surviving firms took part in the survey.

Market Structure. No attempt was made at obtaining a refined picture of market structures in this sector. The application of theoretical criteria of the type of Joe S. Bain's studies[2] were obviously outside the scope of a study of this kind. However, in an attempt to find out a little about market structure relating to firms in the sample, respondents were asked their opinion about the strength of competition in their lines of business, in the following terms: "Would you say that in this enterprise you are up against strong competition, moderate competition, or no competition to speak of?". The answers are shown in Table 5.5. About 60 per cent of the responding firms — mostly in retail business — reported very strong competition in their line of business. Only about 7 per cent of the responding firms reported that there was no competition to speak of in their line of business.

Age of Business. The age structure of firms in the sample is given in Table 5.6. Only 13 out of 225 firms were founded before 1930 and exactly one-third of the firms in the sample were founded in the two decades between 1930 and 1949. The most marked feature of the distribution is the concentration in the fifties due to general boom conditions in the early fifties. Alternatively, the high percentage of the foundation of businesses in the last decade may be a reflection of the general relaxation of restrictions on trade and commerce and industry started in the early 1950's, and continued thenceforward.

Sources and Uses of Finance

It has already been mentioned, in Chapter One, that the financial problem of the small firm has been as formidable in underdeveloped countries as in developed countries — perhaps only more so in underdeveloped countries. As previously mentioned, it was this problem which led to the setting up of the Small Business Administration in the United States in 1953.

Even as recently as 1959, the Radcliffe Committee[3] reported that in the United Kingdom the money market did not cater for the requirements of small businesses and commented that there was a danger, which it was socially and economically desirable to avoid that the growth of small firms might be impeded because they lacked some of the facilities open to larger companies for obtaining capital.

In Chapter One the financial problems of small enterprises were identified and three special difficulties facing the small firm were also mentioned. These were the inability of the small firm to demonstrate its chances of success in order to persuade potential lenders; the inability of the existing lending and financial institutions to cater for the special problems involved in small business finance; and the lack of knowledge on the part of the businessman and his advisers on how and where to get the money. In regard to this last point it is interesting to note that in conducting the survey, when respondents were asked the question: "Have you sought any advice on how to finance your business? And if so, where from?", over 95 per cent of the respondents answered in the negative.

With these considerations in mind, we turn to examine the information obtained from the survey regarding the sources of funds. In principle, there are two sources from which a firm may raise funds for its day-to-day operation and for expansion, namely: internal and external funds. Internal funds, which are analogous to the savings of private individuals, are raised mainly from the firm's own savings and past profits. As previously mentioned, internal or external funds can also be classified as long-term, medium-term or short-term funds. Firms may raise external long-term funds in the form of shares or loans; and short- and medium-term funds may be raised in the form of bank credit, trade credit and hire-purchase facilities.

Some light is thrown on the sources from which 185 small firms in the sample obtained their funds by examining Table 5.7. The amounts, given in the left-hand portion of the table, give some idea on the original pattern of sources of funds of these firms when they first set up in business. It also provides an interesting comparison with the present pattern of sources of funds to the same firms as going concerns, which is shown in the right-hand section. The table shows that in the sample, share capital was by far the most important single form of financing new businesses. It accounted for as much as 44.8 per cent of the total funds available to these small firms when starting their businesses. This is especially significant bearing in mind the limited marketability — in general, and in underdeveloped countries in particular — of the shares of private companies. This is perhaps explainable in terms of the family nature of ownership and control of these firms. In fact, not a single firm in the sample reported the use of bonds or debentures as a method of raising funds. It is also interesting to compare the relative importance of share capital and that of single proprietors' funds. While share capital accounted for 44.8% of the total available funds for financing new businesses, proprietors' own funds accounted for over 77% of the funds available for single proprietorships (see Table 5.7a). Even as going concerns, single proprietorships obtained the bulk of their funds from retained profits and depreciation. The individual proprietor typically started his business with less than £25, which he had saved either from previous employment elsewhere or from another small business and only expanded his present business as funds became available from internal sources. The single proprietors' contribution to the total sources of funds of the responding firms was of the same order of magnitude as that of the total short-term credit which commercial banks extended to these small firms. However, the commercial banks' contribution to small enterprises in this line is perhaps obscured by the fact that trade credit — discussed below — is usually made possible only because commercial banks advance short-term credit in the first place to importing and wholesaling firms who in turn pass this credit on in a long chain down to the retailer and final consumer. However, single proprietors' funds, together with ordinary and partnership shares, were by far the most important sources of funds — accounting for 63.4% of the total original sources of funds. But contrary to expectations, loans from directors accounted for only 1.8% of the total sources of funds.

The next most important original source of funds for these firms was in trade credits, which accounted for 20% of the total funds. This is perhaps a reflection of the dominating position commanded by trade and commerce in the sample. Trade credit figures contrasted very sharply with the figures given under hire-purchase. As a form of finance hire-purchase accounted for less than 1% of the total original funds of these small businessmen even though 12.3% of the total available funds was raised for the purpose of purchasing plant and machinery. The conclusion to be drawn would seem to be that even when small businessmen wished to set up in industry, they found it difficult to raise either short-term funds from banks or medium-term funds on hire purchase terms. Yet medium-term funds of this kind have often proved crucial to the expansion of small firms, and lack of such facilities has often struck fatal blows to small firms.

Though the original dates of incorporation of firms in the sample are different, the right-hand portion of Table 5.7 gives a rough picture of the pattern of sources of funds of these firms in mid-1966. There are some interesting comparisons to be made between patterns of financing small businesses as going concerns and when they first start in business. Though share capital was still absolutely the largest source of funds for long-term capital in the sample, its relative importance declined from 44.8% to 29.6% of the total funds available. And although share and single proprietors' equity still accounted for 40.6% of the total sources of funds, retained profits and depreciation emerge as the most important method of raising funds for new capital.

A number of businesses which started operating some 10 or 15 years ago with capital equity in some cases of Shs. 100/- or 200/- have managed to accumulate internal funds running into several hundreds of pounds. This seemed to be especially true of many Asian-owned businesses. But there was also one instance of an African firm with two partners who started out with only Shs. 400/- in 1954 and had accumulated, by 1966, gross assets of more than £10,000 through saving and ploughing back past profits. In fact, during the process of conducting the survey, it became clear that a large number of owners of small businesses were so used to this form of financing that the question of expansion did not even arise until such time as they had accumulated sufficient funds from their own internal sources. Some of these businessmen were either too proud to finance their businesses from any external source or they had learnt from experience that there simply was no other source accessible and suitable for their long- or medium-term capital requirements. This view is reinforced by the fact that retained profits and depreciation, together with equity capital, accounted for 65.2% of the total sources of funds. In other words, more than two-thirds of the total funds in the sample were raised either from equity capital or from retained profits and depreciation.

Even when it came to short- and medium-term funds, bank credit and hire-purchase obligations accounted for only 8.8% of the total sources of funds in the sample. It is interesting to note that not only did bank overdrafts remain at around 8%, but also that only 27 out of 182 responding firms reported any bank credit at all. In other words only about 15% of the responding firms in the sample had access to this form of finance.

Trade credit on the other hand remained an important source of short-term funds for the established small businesses; it was responsible for 15.4% of the total sources of funds. The figure of £350,000 for total trade credits outstanding in mid-1966 compared with a figure of £1,592,500 in credit extended by these businessmen to customers per annum.

As far as uses of the original funds are concerned, expenditure on fixed assets — land and buildings — was very small, accounting for only 5.9% of the total available funds to beginning businesses. Only 10 firms of the 185 responding firms reported expenditures on land and buildings. Expenditure on plant and machinery accounted for 12.3% and the remaining 81.8% of the total gross assets of small businesses was held in the form of working capital. This again is probably a reflection of the dominating influence of trade and commerce in the sample. But lacking detailed information it was not possible to break these figures further down to stocks and liquid assets.

As going concerns, small firms held relatively more fixed capital in the form of land and buildings than in the form of working capital. Of the responding firms, 39 reported holding assets in the form of land and buildings and this accounted for 22.5% of the total assets. Relative to the time of first setting up in business, the share of assets held in the form of plant and machinery remained virtually the same at around 12% of the total assets, and working capital accounted for the remaining 65.7%.

Present Demand for Funds. Respondents were asked whether they wished to expand their activities and, as would be expected, a very high percentage of the respondents tended to answer this question in the affirmative. However, it was only the 87 firms who had specific plans of expansion and details of how they proposed to carry them out which were recorded. Of these, 3 firms proposed to expand backwards. Thus one wholesaling firm had plans to expand into a direct importation business; the other two were grocery firms who proposed to expand into truck farming and food processing. Another seven firms proposed to expand towards the markets; for instance, one wholesale firm proposed to open up a retail store. The bulk of firms (58 firms) however, proposed to expand horizontally; they wanted to open up another shop or buy a new plot in the same or another town.

Another group of 24 firms had plans to open up new activities which were completely unconnected with their present lines of business. The list of proposed products was long and impressive. It included such diverse things as plans to start manufacturing cycle spare parts, paper-bags, local asphalt and roofing felt, hosiery and textiles, hardware fittings, fluorescent fittings and electrical accessories, suitcases, etc.; other plans included opening up shops for processing colour films; for designing for locally produced textiles; and screen printing.

These respondents were asked to supply the estimated capital costs of the proposed new projects and the proposed sources of the required funds. The results are shown in Table 5.8 which sets out the demand for funds for the proposed capital expansion as well as the planned sources of these funds. It is convenient and interesting first to examine the purposes for which these funds were needed by looking at the structure of assets to be acquired. The most significant item for which funds were required was plant and machinery — accounting for 40% of the total expenditure. This contrasts very sharply with the position in Table 5.7 where only 12% was for plant and machinery and 65% to 82% of the original expenditure was in the form of working capital.

In the present pattern of demand, emphasis is in a different direction, whereby expenditure on plant and machinery and land and buildings now accounts for just less than 60% of the total required expenditure. This is probably a reflection of the desire on the part of many firms in the sample to switch from trade and commerce to manufacturing industries. In fact, one Asian respondent asked about his opinion on what Government should do to help small businesses in Uganda most effectively, replied that Government should encourage Asians who had sufficient capital and technical know-how to switch from trade and commerce to manufacturing industries in order to leave room in trade and commerce for budding African small businessmen. The provision for expenditure on working capital, 36% is relatively much less important in the present position.

As far as the sources of funds for expansion were concerned, the proposed position did not differ radically, as did planned assets, from that presented in Table 5.7. Share capital and internal savings would still account for 42% of the total sources of funds as compared to 65% in Table 5.7. However, three sources of funds would need to undergo some radical changes. The proposed switch from trade credits to the hire-purchase obligations, as a form of raising short- and medium-term funds, reflects a fundamental change in the pattern of activities to be undertaken. Furthermore, much of the required working capital would need to be raised in the form of short-term bank credit. To satisfy this demand, the relative contribution from this source would need to change from 8% to some 26% of the total sources of funds.

Other sources of funds typically included insurance companies and investment trusts and their relative contribution would apparently need to rise from the present about 3% to 8% of the total sources of funds.

Conclusions

It will be observed that in the absence of any rigorous *ex ante* quantitative determination of effective demand, the phrase "demand for funds" has been rather deliberately used. The conclusions reached here therefore, differ very sharply from those reached and strongly expressed by Sayre P. Schatz, in his book *Development Bank Lending in Nigeria: The Federal Loans Board*.[4] The main thesis which he advances in this book is that

> "the idea of a capital shortage in the indigenous private sector of the economy is an illusion created by a large false demand for capital; and that what really exists is not an immediate shortage of capital at all but an immediate shortage of viable projects, that is, projects that all things considered, promise to be sufficiently profitable to attract private investment."[5]

Mr. Schatz bases his conclusions on the analysis of 290 investment proposals in Nigeria which were considered by the Federal Loans Board during its five and a quarter years of operations. The FLB rejected 229 of these on viability and 7 others on security grounds. It approved only 54 loans, 10 of which failed to materialize for various reasons and the aggregate amount of money it lent was only slightly more than £400,000. Mr. Schatz therefore lumps the 236 viability and security rejectees and labels them one big segment of false demand for capital pointing out the fact that a desire for capital was different from an effective demand for capital. He also goes on to emphasize the point that lenders have to be convinced both of the worthiness and adequacy of security offered of a project before an effective demand for capital could be said to have been existent.[6]

He also goes to great pains to show that there were no political overtones involved in the processing of these investment proposals. Subsequent events in Nigeria, however, would perhaps not bear him out on this point. In any event, by Schatz's standards of effective demand, the 532 credit-guarantees and 84 discounting loans discussed in Chapter Four would probably have been labelled as false demand for short-term capital funds, since in the absence of ABP's special facilities, those very indigenous businessmen could not have convinced the commercial banks either of the viability of their projects or of the adequacy of their securities even though this kind of short-term lending would have been expected "to be sufficiently profitable to attract private investment". After all, the inability of small firms to demonstrate their chances of success in order to persuade potential lenders constitutes one of their special difficulties. These difficulties would seem to call for special measures of solving them and five years is certainly not a long enough period to warrant drawing such final and conclusive pronouncements.

Moreover, the fact that during its sixteen years of operation, the UCSB approved loans to an aggregate sum of nearly £2 million and the fact that towards the end of its life the UCSB was able to wipe out all its losses and even make a profit, is indicative neither of there being a false demand for capital nor of the existence of lack of viable projects in the indigenous sector of the economy in Uganda.

As far as the survey is concerned, when respondents were asked the question: "What are the most important factors which you consider have prevented your business from expanding?", 55 out of 129 responding firms mentioned lack of finance as the most important constraint to expanding their activities. Excessive competition which was the second most important constraint, ranked rather a poor second — this response being given by only 22 of the responding firms. And when the respondents were asked the sources from which they were most usually able to satisfy their demand for funds, 99 out of 190 responding firms mentioned retained profit as their most important source of funds. But although another 70 of the responding firms mentioned bank credits as their most important sources, the amounts acquired must have been very small as is evidenced from Table 5.7.

The picture which emerges from the sample is that of a very high rate of self-finance. Even share capital, which accounted for a high proportion of the total sources of funds, was most usually simply a matter of family funds. There was no evidence in the sample of a widely held public issue of shares. The evidence, however, helped to support the hypothesis that small firms in Uganda relied a great deal on internal sources of funds for the provision of their long-term capital; it was also clear that although trade credit provided a significant source of funds, the small firms still had to rely mainly on their internal sources of funds to satisfy their short- and medium-term requirements. These facts would perhaps strongly support the contention that the expansion of small firms in Uganda is probably inhibited by a lack of suitable sources of long- and medium-term funds. Such high self-financing is no evidence of financial ease in small firms. With the exception of a possible small group of firms who may not want to raise funds for expansion from any external sources, it may well be that the bulk of small firms in Uganda are held back by their inability to get long- and medium-term finance from elsewhere. Evidence from the sample on the present pattern of demand for funds and the planned sources of funds for expansion would seem to support this contention.

Finally, the fact that the businessmen who needed funds in the sample were running going concerns and planned to raise at least 42 per cent of the required funds from their own resources goes a long way to show that this was some form of effective demand for funds.

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1. See Uganda Government, *Survey of Industrial Production, 1963* (Entebbe: Government Printer, 1965) p. 8.
2. See, for instance, his book *Industrial Organization* (New York: John Wiley & Sons, Inc. 1959).
3. *Report of the Committee on the Working of the Monetary System*, Cmnd. 1959, 827, para. 932.
4. Sayre P. Schatz, *Development Bank Lending in Nigeria: The Federal Loans Board* (Ibadan: Oxford University Press, 1964).
5. Ibid, p. 89.
6. Ibid, pp. 90, 91.

Table 5.1a

COMPOSITION OF SAMPLE BY INDUSTRY

Industry		Interviews Attempted	Successful Interviews
Processing of Cotton and Coffee			
Cotton Ginning	011	10	2
Coffee Curring	012	3	1
Mining and Quarrying			
Metal Mining	022	3	1
Stone Quarrying	140	4	—
Manufacturing			
Grain Milling	205	8	—
Bakery Products and Confectionery	206	7	6
Miscellaneous Food Preparations and Soft Drinks	209, 204, 214	8	1
Footwear and Wearing Apparel	240, 242, 213	26	11
Furniture	250, 260	23	10
Printing and Publishing	280	8	6
Rubber Products	300	3	—
Basic Industrial Chemicals, Soap and Other Chemical Products	311, 319	4	3
Vegetable and Animal Oils and Fats	312	1	1
Glass and Concrete Products	332, 339	4	2
Metal Industries and Engineering	350		
Engineering	370	15	7
Repair of Motor Vehicles and Cycles	384	27	15
Construction			
Construction	400	19	6
Commerce			
Wholesale Trade	611	85	26
Retail Trade	112	212	114
Real Estate	640	4	2
Transport and Communication			
Omnibus Transporters	712, 718	8	—
Road Transporters	713, 714	5	2
Services			
Theatres	831, 832	3	—
Restaurants and Cafes	842	16	8
Hotels and Rooming Houses	843	8	—
Laundries	844	3	1
Barber and Beauty Shops		2	1
Photographic Studios	846	4	2
TOTAL		522	228

Table 5.1b

COMPOSITION OF SAMPLE BY INDUSTRY AND BY NUMBER EMPLOYED

Industry		Very Small 1–4	Very Small 5–9	Medium Small 10–24	Medium Small 25–49
Processing of Cotton and Coffee					
Cotton Ginning	011	4	3	2	1
Coffee Curing	012	..	..	1	1
Mining and Quarrying					
Metal Mining	122	..	..	1	2
Stone Quarrying	140	1	1	..	2
Manufacturing					
Grain Milling	205	5	1	2	..
Bakery Products and Confectionery	206	..	1	2	4
Miscellaneous Food Preparations and Soft Drinks	209 204 214	..	2	3	3
Footwear & Wearing Apparel	240 242 243	9	11	4	2
Furniture	250 260	8	7	4	4
Printing & Publishing	280	1	2	3	2
Rubber Products	300	1	..	1	1
Basic Industrial Chemicals, Soap & Other Chemicals .. Products	311 319	1	..	1	2
Vegetable & Animal Oils & Fats	312	..	..	..	1
Glass & Concrete Products ..	332 339	2	..	1	1
Metal Industries & .. .. Engineering	350 370	4	4	3	4
Repair of Motor Vehicles & Cycles	384	7	8	8	4
Construction					
Construction	400	2	3	4	10
Commerce					
Wholesale Trade	611	38	21	16	10
Retail Trade	112	119	57	26	10
Transport and Communication					
Omnibus Transporters ..	712 718	2	1	1	4
Road Transporters	713 714	2	1	1	1
Services					
Theatres	831	..	..	..	..
	832	..	2	1	..
Restaurants & Cafes	843	7	5	3	1
Hotels & Rooming Houses ..	843	1	2	3	2
Laundries	844	1	1	1	..
Barber & Beauty Shops ..		1	1	..	..
Photographic Studios	846	3	1	..	..
TOTAL		220	136	93	73

Table 5.2

SIZE DISTRIBUTION OF FIRMS IN THE SAMPLE

	No. of Firms	Persons Engaged
(*a*) Employment		
0—1 Persons engaged	1	1
2 " "	21	42
3 " "	28	84
4 " "	24	96
5—9 " "	70	450
10—24 " "	55	783
25—49 " "	23	757
Not ascertained	6	—
Total	228	2,213

	No. of Firms	Total Assets (£)
(*b*) Gross Assets:		
Under £ 250	10	1,760
£ 250 — 749	10	6,000
750 — 4,749	59	128,000
4,750 — 9,749	39	245,000
9,750 — 24,749	36	559,000
24,750 — 49,749	20	671,000
49,750 — and over	8	663,500
Not ascertained	43	—
TOTAL	228	2,275,760

	No. of Firms	Volume (£)
c) Annual Turnover		
Under £ 749	6	3,000
£ 750 — 4,749	39	101,500
4,750 — 9,849	35	222,500
9,750 — 24,749	58	821,000
24,750 — 49,749	27	900,000
49,750 — 99,749	29	1,700,000
99,750 — and over	14	3,465,000
Not ascertained	20	—
TOTAL	228	7,213,000

Table 5.3

CONSOLIDATED SIZE DISTRIBUTION OF FIRMS IN THE SAMPLE

Employment	Number of Firms	% of Total	Persons Engaged	% of Total	Turnover (£)	% of Total	Number of Firms	Gross Assets	% of Total	Number of Firms
Firms with:										
0 or 1 Persons engaged	1	0.4	1	—	—	..	..	150	..	1
2 ,, ,,	21	9.2	42	1.9	159,500	2.2	18	45,000	2.0	17
3 ,, ,,	28	12.3	84	3.8	325,000	4.5	23	270,500	11.9	21
4 ,, ,,	24	10.5	96	4.3	427,000	5.9	24	184,000	8.1	19
5— 9 ,, ,,	70	30.7	450	20.3	1,664,500	23.0	61	586,000	25.8	55
10— 24 ,, ,,	55	24.1	783	35.4	2,947,500	40.9	54	567,500	24.9	44
25— 49 ,, ,,	23	10.1	757	34.2	1,482,000	20.5	22	525,500	23.1	19
Not ascertained	6	2.6	—	—	207,500	2.9	6	96,500	4.2	6
Not ascertained	—	..	—	—	—	..	20	—	..	46
TOTAL	228	100.0	2,213	100.0	7,213,000	100.0	228	2,275,150	100.0	228

Table 5.4

COMPOSITION OF THE SAMPLE BY RACIAL OWNERSHIP

Race	Number of Firms	Percentage of Total
African	11	4.9
Asian	199	88.4
European	7	3.1
Mixed	8	3.6
TOTAL	225	100.0

Table 5.5

OPINIONS ON THE STRENGTH OF COMPETITION

Competition	Number of Firms	Percentage of Total
Strong	133	59.9
Moderate	74	33.3
None	15	6.8
TOTAL	222	100.0

Table 5.6

DATE OF FOUNDATION OF BUSINESS

Date of Foundation	Number of Firms	Percentage of Total
1900—1909	2	0.9
1910—1919	2	0.9
1920—1929	9	4.0
1930—1939	30	13.3
1940—1949	45	20.0
1950—1959	98	43.6
1960—1966	39	17.3
TOTAL	225	100.0

Table 5.7

SOURCES AND USES OF FUNDS

Sources	ORIGINAL (185 Firms) Amount (£)	Percentage of Total	Number of Firms	PRESENT (182 Firms) Amount (£)	Percentage	Number of Firms
Ordinary Shares	498,500	44.8	71	674,500	29.6	65
Partners' Shares	121,000	10.9	38	148,000	6.5	30
Proprietors' own funds	86,000	7.7	89	103,000	4.5	58
Retained Profits and Depreciation	—	—	..	559,000	24.6	49
TOTAL EQUITY CAPITAL	705,500	63.4	..	1,484,500	65.3	..
Loans from Banks	85,500	7.7	..	184,000	8.1	27
Loans from Directors	19,500	1.8	2	95,000	4.2	10
Mortgages	25,000	2.2	4	77,000	3.4	11
Trade Credits	221,000	19.9	27	350,500	15.4	48
Hire-Purchase	6,000	0.5	3	16,500	0.7	5
Other Sources	50,000	4.5	5	67,500	3.0	11
TOTAL	1,112,500	100.0	..	2,275,000	100.0	..
Uses						
Land and Buildings	66,000	5.9	10	512,500	22.5	39
Plant and Machinery	137,000	12.3	34	268,500	11.8	56
Working Capital	909,500	81.8	131	1,494,000	65.7	164
TOTAL	1,112,500	100.0	..	2,275,000	100.0	..

Table 5.7a

SINGLE PROPRIETORSHIPS

Sources	ORIGINAL (89 Firms) Amount (£)	Percentage of Total	Number of Firms	PRESENT (58 Firms) Amount (£)	Percentage of Total	Number of Firms
Proprietors' own funds	86,000	77.5	89	103,000	37.9	58
Retained Profits and Depreciation	—	—	..	124,500	45.8	4
Loans from Banks	500	0.4	1	500	0.2	1
Mortgages	500	0.4	1	2,500	0.9	2
Trade Credits	10,500	9.5	7	21,500	7.3	13
Hire-Purchase	3,500	3.2	2	3,500	1.3	1
Other	10,000	9.0	1	16,500	6.0	4
TOTAL	111,000	100.0	..	272,000	100.0	..

APPENDIX 5.A

SURVEY OF FINANCIAL DEMAND FOR SMALL-SCALE ENTERPRISE IN UGANDA, 1966

A. Characteristics of the Establishment

1. Name of your establishment..........
2. Postal address: Post Box..........Post Office..........
   ....
3. Location of factory or workshop: District..........
   Town..........
4. Type of legal organization of firm (mark with a tick)
   (*a*) individual ownership (sole trader)..........
   (*b*) partnership..........(*c*) registered company..........
   (*d*) other ....
   Please state the number of partners or shareholders
   ....
5. (*a*) What are the main and secondary activities of your establishment? ....
   (*b*) Apart from this business, are you owner or part owner of any other business? (please specify)..........
   (If so) who manages it on your behalf?..........
   ....
6. (*a*) Month and year your establishment started production ....
   (*b*) Who took the initiative in starting this enterprise?
   ....
   How many persons were originally involved?
   How were they known to each other?..........
   How many partners/shareholders belong to the same family?..........Same tribe?..........
   (*c*) Why did you decide to start this enterprise? (esp. why this kind of business, rather than another? why go into business, rather than any other way of earning a living?)..........
   (*d*) Was any technical advice or assistance received at the outset? Yes..........No..........
   (If so) from whom?..........
7. Total number of persons employed:—

	Present	1961 or Original
(*a*) Unskilled (primary education or less)	....	....
(*b*) Skilled	....	....
(*c*) Managerial and Professional staff	....	....

B. Present Demand for Capital Funds

1. Would you wish to expand your activities? Yes/No
   (If the answer to this question is "no", you need not answer questions 2-4 in Section B.)

2. Please give a brief description of any specific object of the capital expansion proposed.
3. What is your estimated capital cost of the new project?

	Item	Cost (£)
(*a*)	Land & Buildings	....
(*b*)	Plant & Machinery	....
(*c*)	Other items to be purchased	....
(*d*)	Working capital	....
	TOTAL	

4. How would you plan to obtain this Capital?........................

	Item	Amount (£)
(*a*)	Retained Profits & Depreciation	....
(*b*)	Partners' Contribution	....
(*c*)	Shares	....
(*d*)	Bonds	....
(*e*)	Bank Loans & Overdrafts	....
(*f*)	Directors' loans	....
(*g*)	Mortgages	....
(*h*)	Trade credits	....
(*i*)	Hire-purchase	....
(*j*)	Other (specify)	....
	TOTAL	

5. Have you been able to obtain the financing you want? Yes/No
   (If so) from what sources have you been able to satisfy your demand for funds?........................
6. If not, what attempts have you made?........................
7. Have you sought any advice on how to finance your business? Yes/No (If so) where from?........................
8. What interest would you be prepared to pay on additional capital? ....
9. What do you regard as a worthwhile return on capital?
   ....

C. MANAGEMENT AND CONTROL

1. (*a*) How is the business directed?........................
   (*b*) How many directors are members of the same family?........................Same tribe? ....
2. Do you keep any books of account? Yes/No
3. How is the business managed? (Give brief description of experience: record of jobs, activities and previous business ventures)
4. Manager's education: Kind of school........................
   To what level........................
5. Is any change in management proposed? (Give brief description) ....
6. Who is in charge of the technical aspects of the business? (Give brief description of experience)........................
   ....
7. Is any change proposed in the management of the

technical aspects of the business? (Give brief descriptions) ....

8. What approximately is the ratio of profit to turnover? ....

9. Could you please attach your last year's balance sheet and profit and loss statements ....

D. MISCELLANEOUS

1. Do you give any credit yourself (e.g. by transfer of goods)? Yes/No (If so) to whom do you give this credit? Friends/Relatives/Others
   To what extent?...............At what cost?...............
2. Do your friends and relatives transfer any goods to you? Yes/No (If so) to what extent?...............
   At what cost?...............
3. Is the ownership of the establishment predominantly African/Asian/European/Mixed?
4. Would you say that in this enterprise you are up against strong competition/moderate competition/no competition to speak of?
5. What do you think are the outstanding problems of small-scale businesses in Uganda?...............
6. What should Government do to help small businesses most effectively? ....
7. Do you expect business conditions in Uganda to (*a*) improve (*b*) remain unchanged (*c*) deteriorate?
8. What approximately is your annual turnover?...............
9. What are the most important factors which you consider have prevented your business from expanding?

E. NAME AND ADDRESS OF ESTABLISHMENT

Amount and Sources of Capital

1. (*a*) Original authorized capital...............
   (*b*) Original subscribed ....
2. Please give details of sources of funds:

Item	Original Amount(£)	Present Amount(£)
(*a*) Own funds (Proprietor, Sole trader)	....	....
(*b*) Partners' Contributions	....	....
(*c*) i. Ordinary Shares	....	....
ii. Preference Shares	....	....
(*d*) Bonds	....	....
(*e*) Bank loans & overdrafts	....	....
(*f*) Directors' loans	....	....
(*g*) Mortgages	....	....
(*h*) Trade credits	....	....
(*i*) Hire—purchase	....	....
(*j*) Retained profits & Depreciation	....	....
(*k*) Other (Specify)	....	....
TOTAL		

3. How were your own funds raised?.................................
4. What are the partnership arrangements? Written contract/ Other (Specify) ....
5. Please describe briefly the security offered for items e, f, g and h in question E.2.
6. Please indicate the breakdown of your capital structure by type of asset:

Item	Original	Present Amount(£)
(*a*) Land & Buildings	....	....
(*b*) Plant & Machinery	....	....
(*c*) Working Capital	....	....
TOTAL	___________	___________

6

The Management Problem

The Sociology of Management of the Small Firm

In this section of this chapter we try very briefly to look at the picture of the sociological and cultural environment in which the small firm in Uganda lives and has frequently grown. For in the survey of finance for small-scale enterprise discussed in the last chapter, one finding which stood out very clearly was that small business in Uganda — as in other parts of the world — depended very heavily on self-finance. In Uganda, in particular, this was true both in regard to long-term finance and in regard to short- and medium-term finance. The highly successful Asian small business depended very heavily on self-finance — which was also interlocking family finance. In other words, family finance was the largest source of the highly successful Asian businesses in Uganda. The question therefore arises where African businesses are concerned whether this fundamental source of finance for small businesses is not a closed avenue. It is for this reason that it would be interesting to try to focus attention for a little while on the family and business enterprise among the Asians in East Africa[1] and try to compare and contrast this to the social and cultural fabric of the African society.

Dr. Desai's paper on "The Family and Business Enterprise Among the Asians in East Africa" might have been headed "Why Asian Businesses Succeed in East Africa". In essence he says that these businesses succeed basically because of the social organization of the Asian family system. For historical reasons, the Asian has been more easily able to enter trade and commerce than his African counterpart, and, in contrast to his African counterpart, the Asian has tailored his business to provide as much for his family as for his business expansion. The Asian has been able to manipulate his social organizational set-up for personal gain and the internal solidarity of his society has been not only notional but functional. Hence the essence of the success of the Asian business has been not so much that of the individual triumph as much as of the whole framework of his social organization.

However, it will here be argued that the conditions in which the small firm has hitherto flourished in Uganda are changing in many ways — sometimes in radical ways. If in independent Uganda, it is desirable to correct the great imbalances in industrial and commercial activities, it should be possible to exploit and manipulate these changing social — and political — conditions. It would seem, for instance, that as far as African businesses are concerned, family finance is not likely to play as fundamental a role in developing African small businesses as it has played in those of non-Africans. For it seems that, in contrast to Asian families, most African families in Uganda do not have any funds to start off with. And, in contrast to the Asian *joint family* system, the African *extended family* system does not seem to be conducive to capital accumulation and this is especially so where the small distributive trade businesses are concerned. While one of the most important functions in the Asian joint family system is the generation of capital in business, in the African extended family system the tendency is to regard the small amounts of capital which might be invested in business by a would-be budding businessman as available to meet the financial needs of the various relatives in the family. These comparisons and contrasts would therefore need to be examined in a little more detail.

The Asians in Uganda, as in the rest of East Africa, with whose family system we are here concerned, are a people of Indo-Pakistani origin. Of course, they are by no means a homogeneous social group with a social system susceptible to generalized description. Nor would the ethnic and tribal groups of the African population in Uganda be susceptible to such homogeneous description. But in dealing with the family system of the Asians it is useful to divide them into three broad groups. First, the caste groups are each homogeneous groups in terms of language, region of origin in India, culture and actual or potential kinship ties. Second, the religious groups which include the Hindus, the Muslims, the Sikhs and the Christians are multi-caste, multi-language and multi-region of origin in India. And third, the linguistic groups which include the Punjabi and the Gujerati are multi-caste and multi-religion but are unified in terms of culture and region of origin in India.

The Asians in East Africa are differentiated from Asians in India. In India the basic social groups are identified with caste hierarchies which are characterized by dominance and sub servience. (See particularly, for instance, William Henricks Wiser, *The Hindu Jajmani System*, Lucknow: Lucknow Publishing House, 1958.) But the different Asian groups and families in East Africa are characterized more by mutual rejection and competition than by dominance and subservience.

The family is the unit of social interaction both among the Asians and Africans. In the Asian community it is the family which aligns itself with others to form the groups for conducting corporate activities. In contrast to African businesses, most Asian businesses are joint family businesses. But the root of this business unit is social and cultural rather than economic.

> "The traditional value system of the Asians (particularly the Hindus) emphasises the desirability of living in a joint family. A Hindu joint family consists of a man and his descending generations or of brothers and their descending generations. Those women who come into the family by marriage and those who are born into it but are unmarried are also included in the joint family. . . . Generally speaking the ownership of the family business is joint and is vested in the social head of the family, the *Karta*, the manager. Where the business is part of the ancestral inheritance, every male member has an interest created in it at birth and has a right to demand partition of the family and the joint ownership of the business. A person may live and die without breaking up his natal joint family but his ownership or share is secure. The shares are determined *per stirpes* and are equal . . ."[2]

Implicit in this social organization are two very important functions. First, one of the most important functions of the joint family is in the provision of the management of the family business. The family is not only a business owning unit but it is a managing unit as well. When a business is started almost all but the most menial or the very specialized skilled labour is provided by the members of the family (women included among them).

The second most important function of the joint family in business is in the generation of capital. The joint family fulfils this function by maintaining a joint economy. In the family there are joint savings as well as joint expenditure and the family earnings are joint and undifferentiated.

> "The manager invests the savings without specific consultation with the other members of the family. He also spends on the individual members according to their needs rather than potential shares . . . When in the family a number of individuals

have income independent from the business the manager finds it easier to obtain credits and other facilities in business. Since a family is seen as a unit by the outsiders, the independent sources of income are a guarantee of repayment of debt in case the business fails. Also the larger the family the firmer the social control the Asian society has over it. The large joint family has more marriages to arrange, has a larger network of kinship through which arbitration can be made effective than a small one. Hence it can ill-afford to lose prestige or antagonise other members of the society through business activities."[3]

The joint family is thus a productive unit not only whose management is centralized but whose resources are pooled together for productive purposes. It may spread over a very large area. It may embrace a widespread network covering the whole of East Africa. Wholesaling and trading arrangements may be made in Mombasa simply by incorporating a family member in that town. A whole chain of credit may be extended from Mombasa to a retailer in a remote trading centre in Uganda without interest since the whole operation would be seen as a social obligation. Because of their social organization, Asians may have advantages over all outsiders who might have to employ capital funds at every point in the chain. Hence Asian success in business may be explainable not so much in terms of individual achievement as in terms of a whole framework of social organization.

However, the institutions and traditional values connected with the African extended family system would seem to be in sharp contrast with those of the Asian joint family system in East Africa. The African extended family often extends to include third uncles, fifth cousins and literally hundreds of people. But the extended family cannot be regarded as a productive unit in the sense of pooling resources together for productive purposes as in the Asian joint family system. Nor can the extended family be regarded as a social organization fit for generating capital. On the contrary, an up-coming entrepreneur is expected to share his success with the members of his family who may either mistake his stock and sales turnover for consumable income, or tend to regard the capital invested in the business as available to meet their financial needs — to pay a fine or settle a law-suit, to send a young cousin or nephew to school, to help in the payment of bride-price, etc. If he refuses to do so, he may risk rejection by the family and the local community. The extended family thus tends to be a distributive mutual insurance rather than a productive organization. Its orientation and emphasis is not so much on *production* as it is on *distribution*. No wonder that an up-country African entrepreneur is wont to think and speak in terms of *omutwalo gwa siringi* (ten thousand shillings) while his Asian counterpart generally thinks and speaks in terms of *lakhs* (a hundred thousand shillings).

The conclusion to be drawn seems to be inevitable. While family funds and family management have played a basic and fundamental role in developing non-African small businesses in Uganda, this source seems unlikely to play so big and important a role in developing African small businesses. And if it is desirable and an important policy objective that great imbalances in industrial and commercial activities should be redressed quickly, then it seems to follow that the realization of these objectives cannot be left to un-aided African family financial and managerial resources.

It is in this social context that provisions must be made for Africans to acquire business knowledge, skills, experience and financial integrity. This kind of training has been shown to be a necessary adjunct to financial facilities. In this connection we must examine an important new development — the establishment of the Management Training and Advisory Centre.

The Management Training and Advisory Centre

In Chapter One we found that most Africans who were interested in going into small business lacked one or all of the necessary qualifications, namely, capital, technical and managerial skills. Moreover, in Chapter Three we saw that though the Uganda Credit and Savings Bank tried to close the gap in the provision of medium- and long-term capital to African businessmen, one of its shortcomings was the lack of any supplementary advisory, or technical or managerial, services. The point was also made that though some of these services were being provided in one form or another, they were scattered over various ministries and agencies without any fundamental co-ordination or co-operation between them. Again in the preceding section of this chapter it was indicated that it is imperative to recognize or accept the fact that the majority of people in Uganda are not natural traders in the sense that the effect of the kind of the Asian family business tradition was lacking.

Although it is the thesis of this study that of the related problems facing small-scale enterprise in Uganda, the basic problem is lack of finance, and that technical and managerial problems are ancillary, it is still recognized that for a full and rounded programme of promoting small-scale enterprise, these ancillary problems have to be tackled *pari passu* with the major problem of lack of finance. Training and improvement in managerial and technical skills in small businesses assumes a sufficient supply of funds whose management can be improved by the training. Indeed it was the recognition of the importance of proper training in improving the overall productivity by raising the standard of business management which led to the inauguration and opening of the Management Training and Advisory Centre in Kampala on 14th July, 1966. For the guiding philosophy of the centre is that "no one class of people has more influence on the development of the economic and social life of a nation and the raising of its standard of living than its managers, whether in industry or commerce, in the public sector or the private, in public administration or managing their own enterprise."[4]

The centre is financed jointly by the Uganda Government and the International Labour Organization (ILO), a special agency of the United Nations. Although its broad objectives are to assist government departments and public institutions with advisory and training services, to assist industry and other sectors in introducing and improving management techniques, and to assist in the raising of the standard of skill of workers employed in industry, the centre is also specially committed to promoting and developing small-scale enterprise — particularly indigenous enterprise. It is committed to prepare Ugandans for managerial, functional and advisory posts in existing and new industries and to help Ugandans to become efficient entrepreneurs by providing them with advisory services and instruction in management practices. In its short time of existence, spanning only a few months at the time of writing, the centre had already conducted two small business management seminars at Bugungu on the shores of Lake Albert and at Lendu in West Nile; the centre had also opened a three day trade exhibition in Kampala and management training techniques and equipment which can aid the manager were displayed.

Organization of the Centre. When complete, the centre will comprise a team of ten specialists who will be provided by the ILO. Of this team of ten, six men had already arrived at the time of writing. These six plus another four men came from all parts of the world bringing knowledge and up-to-date experience in ten different subjects, namely, industrial engineering, management accounting, marketing sales, entrepreneur training, supervisory training, metal engineering, electrical engineering, woodworking technology and mobile workshops. The centre will eventually be administered and controlled by Uganda personnel but during the five year term of the project, the ILO specialists will be working with and training Ugandan counterparts. This is one feature of the programme which makes the centre particularly fascinating for the future of small enterprises in this country. For it would be ideal to have advisory personnel who are not only technically competent in their fields but who also possess first hand knowledge of the cultural and social environment in which the enterprises they are trying to promote live and grow.

The centre is eventually to be governed by a National Council whose policies will be carried out by an Executive Board. The Executive Board is to be drawn from a wide section of the community covering both the public and private sectors of the economy and the Board is expected to be in close contact with the requirements of these sectors. The day to day running of the centre will be under the control of the Director and Chief of Project. The Chief of Project will be assisting and advising the National Council, the Executive Board, and his particular counterpart who will also be the Deputy Director. The other members of the ILO team will have two Ugandan counterparts — one junior and one senior — who in due course will qualify for six months overseas training.

The work of the centre is divided into three sections, namely, a consulting and advisory section, a training section, and an information and documentation section. There is a fourth section for dealing with the general administration such as accounts, course organization and so on. The services of the centre are available to all sectors of the community, including in particular small enterprise in the private sector.

Small Enterprise and the Centre. As far as small businesses are concerned, the centre's experts conduct negotiations with such institutions as the National Trading Corporation or the Small Industries Development section of the UDC in order to try to tie the centre's facilities to these organizations and subsequently to design training courses and advisory services tailor-made to fit their particular requirements. The rationale behind this is that courses organized in this way are fully supported by the participating organization or institution and implies that the new learning will be put into practice immediately. These courses, however, do not exclude non-sponsored businessmen provided that there are vacancies.

The method by which the centre's facilities are tied to other organizations has already been used in many parts of the world.

In Uganda the method has already been used in connection with the Bugungu and Lendu seminars. These seminars were conducted in liaison with the centre and the National Trading Corporation and the Co-operative Department and the Forest Department of the Ministry of Agriculture and Co-operatives. The courses in these two areas concentrated on general management and preventive maintenance. The preventive maintenance course at Bugungu in particular was concerned with fishing craft and small engines and it was carried out virtually at the water's edge. At Lendu preventive maintenance was demonstrated at an African saw mill. In the end both the participating agencies and a good number of people in the areas were able to benefit greatly from the courses partly because the whole arrangement went into action quickly and smoothly.

Essentially the procedure of this method is that the participating organization or agency delegates a Liaison Officer and the centre delegates one expert to look after that organization's affairs. But the heads of both the organization and the centre are still free to communicate with each other though this is confined to general policy matters and training and advisory service. It is the approved policies agreed upon by the heads which are carried out by the two delegates, unencumbered by any extraneous matters or complex communications. But the expert at the centre who is looking after any particular organization has free access to all the other experts for advice and training facilities.

Another essential ingredient of this kind of system is that the centre undertakes to train training officers and consequently this becomes one of the main concerns of the Liaison Officer of the participating organization. In this way it becomes possible to achieve a strong multiplying effect — which is also a conditional feature of all the United Nations expert services. Finally, one of the most effective instruments for training trainers at the centre is the ability at its disposal to bring together a number of small-scale enterprises at an industrial estate so that one man can be appointed by the group to liaise with the centre and arrange suitable facilities. This kind of arrangement economizes on the use of experts at lower levels for teaching and training individual businessmen in an almost vocational training atmosphere.

One of the main advantages of this kind of set-up is that instead of a gross lack of co-ordination and communication between many organizations and agencies concerned with small businesses, it rationalizes co-ordination and communication between them. In particular, the top level communication and co-ordination is preserved for policy making while the programmes for training both in the field and on the job are made at lower levels.

With its resources and this kind of organizational set-up, the future potential of the centre should be very bright. In particular, a combined and co-ordinated effort between the centre and the National Trading Corporation (NTC) should achieve some outstanding results. For the NTC came into being as a result of merging the former ABP and the African Trade Development Section of the Ministry of Commerce and Industry — both of which organizations had already accumulated a wealth of practical experience in dealing with African small businessmen.

However, with such elaborate organizational set-up of the centre, there is no obvious arrangement for the provision of finance.

Conclusions

In the examination and criticism of economic systems it is often necessary to judge according to certain desired objectives or ends of policy. The post-independence political realities in Uganda would seem to show that the long-run generation of economic growth is ultimately going to depend on the indigenous people of this country. It is the declared policy objective of Government, for instance, to double per capita income by 1980. But apart from agriculture, in the private sector in the foreseeable future, increased African participation in economic activities also means increased African participation in small enterprises. These objectives would imply therefore a policy of limiting the sphere of expatriate enterprise so that economic development will increasingly rely upon Government activity and upon African enterprise; and financial institutions must be able to finance these two groups.

It is also a reality that as far as the business classes in general and industrial classes in particular are concerned, the successful African entrepreneur has hitherto been conspicuous only by his absence. His emergence was handicapped by the discriminatory structures characteristic of the colonial regime which denied him a fair chance to accumulate the varying stocks of risk capital needed as equity. However, if the implementation of current development planning is ultimately to rely basically on indigenous effort, then any development programme which does not aim at creating indigenous entrepreneurial and managerial classes in small enterprises is likely to be drawn on shaky grounds. The position and function of small enterprise as a continuing economic entity has been shown to be beyond question.

But we have observed that the concept of entrepreneurship assures three important things, namely, rationality in business for maximal productivity and profitability of invested capital; responsibility and carefulness in management and planning; and a certain amount of dynamism in economic activity — howbeit a dynamism which may be strongly influenced by economic as well as the social background. Without these three ingredients, the economic life of a country is likely to stagnate and their absence might not be made up for by the most sophisticated planning and administration of the economic process.

Entrepreneurship is not something innate in any person or community; it has to be developed by education, training, and a context favourable to its operation. Indeed with its various programmes we have discussed, the Uganda government has been a pioneer in Africa in initiating programmes designed to stimulate and assist African enterprises. These government efforts in trying to develop African small enterprises have certainly been outstanding among African countries south of the Sahara and north of the Limpopo. But if with such special government efforts and assistance, African enterprise has not developed rapidly and efficiently, then this indicates that either these efforts and assistance have to be redoubled or weaknesses inherent in the programmes have to be tackled afresh.

As we have seen, one of the greatest weaknesses inherent in the operations of the Uganda Credit and Savings Bank was that, while it tried to solve the major problem of lack of medium- and long-term capital, it failed to help the small businessman with his ancillary problems of lack of technical skill and managerial ability. The services connected with these problems were strictly speaking not banking services, but all development banks have to provide these ancillary services in one form or another. Even when the UCSB tried to provide these services on an *ad hoc* basis, the results were often most disappointing. The secondment to the UCSB of civil servants whose mental outlook was not conducive to taking risks could hardly have produced satisfactory results. The practice failed to develop responsibility and/or involvement right from the beginning so that when a businessman failed, the UCSB could not point the finger at an Agricultural or Trade Development Officer and tell him that this was his responsibility.

The UCSB has now been turned into a fully fledged commercial bank. But necessary as a National Bank is in Uganda, it is regrettable that a development bank of the UCSB standing and accumulated experience in dealing with small businessmen should have turned "commercial" just at the time when a Development and Advisory Centre designed to tackle the small businessman's ancillary problems of lack of technical and managerial skills was being set up for the first time. A number of other weaknesses such as lack of co-ordination between various agencies are likely to be tackled and get solved in the absence of a development banking institution whose function would have been specialization in medium- and long-term credit — types of credit which may be crucial for the expansion of the small firm. Medium-term credit in particular, as has already been stated, is the most important type of credit for the small firm, since it is on this type of finance that a high proportion of the possibilities of development and renewal are based and, especially in underdeveloped countries, of starting new businesses.

The problem of short-term finance may be decreasing in importance. With growing sophistication of African businessmen, the doors of commercial banks for this type of finance will increasingly be opened. Moreover, as the activities of the National Trading Corporation become more familiar, short-term finance should prove to be a short-run problem. But the problem of medium- and long-term finance still remains as formidable now as in 1950 when the UCSB was first set up.

With regard to the recent re-organization of the former ICA Revolving and African Loans Funds into a Development Loan Fund to be managed by the Uganda Commercial Bank, it remains to be seen how successful this sort of arrangement is likely to be. The Uganda Commercial Bank's basic concern now is with the interests of private depositors and with preserving their confidence. For it is impossible to run a commercial bank without private deposits and in commercial banking one is in business to make profits. But in development banking the yardstick of efficiency is not necessarily profits. In commercial banking, the guiding principles are necessarily conservative, but in development banking as in economic development policy in general, the guiding principle is essentially *change;* which requires experimentation. When these two differing functions are combined in one organization, the tendency is likely to be the development of one at the expense of the other. In any event, the personnel of the bank are likely to spend more of their limited time on commercial rather than on development banking activities. Even if the arrangement was successful, the funds of the Development Loans Fund would seem too meagre to cater for all the industrial and agricultural medium- and long-term capital requirements.

But we need both the training facilities of the Management

Training and Advisory Centre and adequate financial facilities of a development banking institution. Not only do we need both, but the two institutions have to be run together. Provision of training facilities for managerial and technical skills need to go hand in hand with the provision of financial facilities. Just as financial promotion alone has been shown to be incapable of solving problems of small enterprise, the provision of training facilities in managerial and technical skills by itself is equally unlikely to succeed without running a parallel programme of providing financial facilities to the small firm.

One solution of the problem would be to start all over again with a new development bank. After all, with approximately one hundred thousand persons per bank branch, Uganda is certainly not over-saturated with banking. On the question of financing such an institution, the current inquiry into the re-organization of the Post Office Savings Bank cannot fail to come to mind. The Post Office Savings Bank could be re-organized into a development banking institution which would provide a means of mobilizing domestic small savings for domestic investment in small enterprises. Outstanding balances in Uganda on the Post Office Savings account have been well over Shs. 20 million in the last few years; but these funds have largely been invested abroad. On the question of costs of starting and operating such an institution, it should be remembered that even the Uganda Credit and Savings Bank started in a humble way with agency offices in National and Grindlay's Bank premises. It should be possible to arrange agency offices in places where the Post Office is already established.

Perhaps commercial banks could even be persuaded to create and contribute to a joint fund out of a small fraction of their annual profits to be put at the disposition of a development bank for lending to small-scale enterprises. Or, alternatively, the commercial banks could be persuaded jointly to underwrite a fraction of credit to small-scale enterprises through the auspices of such an institution. Or, a joint fund raised by the commercial banks could be used to defray some of the basic expenses of running a development bank.

Judging at least from the experience of all over Europe where special medium- and long-term credit institutions have been created to cater for the needs of small enterprise, the need for a development banking institution in a developing country cannot be over-emphasized. Specialization in these forms of credit for small enterprise, especially in underdeveloped countries, ensures greater operative efficiency. Even the existence of such a body as the

National Trading Corporation cannot suffice since the principles on which medium-term credit is based are unlike those for short-term credit. Moreover, the creation of new instruments usually marks the start of a domestic monetary policy. After the recent inauguration of a central bank, the creation of a national development banking institution would seem a logical step forward since such an institution would provide a means in the hands of the highest financial authorities in the country to control the direction and type of credit in the national interests.

Otherwise it is to be hoped that Trade Associations will develop and accumulate funds rapidly enough to be able to cater for the financial needs of small enterprise in this country. But although the work done in various spheres has been invaluable in many developed countries, Trade Associations have to be extremely well-organized in order for them to provide these services.

Finally, the financial problem of small enterprise will remain unsolved until such time as the public, government authorities, and the financial world realize the very substantial collective importance of small enterprises in the economic system and an integrated programme implemented which is designed to cater for their special requirements.

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1. Dr. Rashimi H. Desai has already done considerable research on this subject and will soon be publishing a work on "The Asian Family as a Business Unit in East Africa". I am heavily indebted to him for his unpublished paper on "The Family and Business Enterprise Among the Asians in East Africa" from which I have liberally drawn material for this section.
2. Ibid, pp. 2, 4.
3. Ibid, pp. 5, 6.
4. The Management Training and Advisory Centre, Ref. Paper No. 201. 67. 0862, p. 1.

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Innovations in the field of financial arrangements are some of the more significant institutional changes which an underdeveloped economy must undergo if it is to move from a low level of economic development to a higher one.

This book deals with the financial problems of non-farm small-scale enterprises in Uganda and examines a variety of financial institutional innovations which have been carried out in an attempt to solve these problems. The successes and failures of these institutions and further areas of innovation are also discussed.

It provides a survey of the main sources of funds available to small enterprises and gives an account of the major problems and difficulties associated with them.

This work is based both on the practical experience of those financial institutions which have taken special measures to cope with the financial problems of small enterprises in Uganda and on the results of a survey which was undertaken to obtain factual information on the financial affairs of the small firm in Uganda.

It is therefore hoped that this book will be of some practical value to all those who are in one way or another concerned with the promotion of small enterprises in Uganda.

The author holds a Diploma in Education obtained at Makerere University in 1957. He is also a graduate of Ripon College, Ripon, Wisconsin where he obtained a B.A. Degree in Economics in 1963 and a graduate of the University of Maryland, College Park, Maryland, where he obtained an M.A. Degree in Economics in 1965. Between 1965 and 1967 he was a Research Fellow at the Makerere Institute of Social Research during which time the present work was prepared. He has since been employed by the Bank of Uganda.

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