

G.R. Bosa  
EDRP. No. 85  
29.10.65.



THE FINANCING OF NON-AGRICULTURAL SMALL-SCALE  
ENTERPRISE IN UGANDA

INTRODUCTION

Among the many problems confronting small-scale enterprise in under-developed countries, few have proved to be as difficult to solve as those of financing.<sup>1</sup> In fact even in 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". This state of affairs holds in spite of Government assistance activities in establishing such bodies as the Reconstruction Finance Corporation, the Federal Banks and the Small Business Administration on his behalf.<sup>2</sup> However, there is no shortage of general statements about the role and importance of the private sector and its contribution to a rapid economic development. In fact, in its first "Five-Year Development Plan", the Government not only wanted to see private enterprise in general "make a full contribution to the task of development" to the tune of some £24-£25 million in total investment, but it also attached great importance to the promotion especially of African Small-scale enterprise, in particular.<sup>3</sup>

This study is therefore considered worthwhile and appropriate, especially bearing in mind the following three reasons. First, it seems that there is a widely held belief in Uganda, as elsewhere in the under-developed world, that a shortage of capital funds for private investment is one of the most pressing as well as one of the most fundamental obstacles to growth of (especially indigenous) small-scale enterprise. It is essential to establish whether or not this belief is valid and if so, to what extent the demand for, falls short of the supply of, capital funds for investment in small-scale enterprise in Uganda. Second, the Uganda Credit and Savings Bank which--in conjunction with the Uganda Development Corporation--most probably has been the largest supplier of capital funds for indigenous small-scale enterprise, has just turned into a fully fledged commercial bank. A review and assessment of the successes and failures of this experiment in development banking in Uganda, would seem extremely appropriate at this time. Last but not least, is the need for some gap filling in the work that has been--and is being--done on money and banking in East Africa. That need would probably still hold apart from any policy considerations which--hopefully--will emerge from this study.

Definitions.--Since size is the major factor in this study, some definition of "small-scale enterprise" is called for. If it were not for the desire to include in this study entrepreneurial activity in trade and commerce, we could perhaps have used "small-scale industry" as a more descriptive term. Even that term, however, still.

---

1. United Nations, "Financing of Small-scale Industries in Under-developed Countries," in Bulletin on Industrialization and Productivity, No.3, P.39.

2. William Diamond, Development Banks (Baltimore: Johns Hopkins Press, 1957), p.34.

3. Uganda Government, The First Five-Year Development Plan 1961/62-1965/66 (Entebbe: Government Printer, n.d.), pp.11,69,9.

"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 establishing eligibility for membership in an organization, such as a co-operative association."<sup>4</sup>

For the purposes of this study, small-scale enterprise will not include agricultural enterprise for two reasons. First, it was understood that the recent UN Survey of the Livestock Industry in Uganda, had fully covered all aspects--including financing--of the animal industry in Uganda. Second, it was thought that at least some aspects of financing of small-scale agricultural enterprise would be covered by the FAO's Survey which is under progress at present; in any event, the same field would be more fully covered by Diana Hunt's study on "Agricultural Credit Schemes in Uganda." Nor will the study 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."<sup>5</sup> On the other hand, any economic activities, particularly new, though not necessarily unknown ones, undertaken willingly but involving the assumption of risks, constitute enterprise. It always involves risk-taking and decision-making even though these risks and decisions may not be of great magnitude. Finally, a small-scale enterprise will be considered as one which does not have access to international finance, i.e. as one which has to rely on domestic financial institutions or the local community.

In view of these definitions, a basic question arises whether, in the absence of a local money market and a loan or equity capital market, the financial facilities in Uganda cater for the enterprise which does not have access to international finance.

There are two general approaches to this problem. The first involves the examination and analysis of the supply of credit to small-scale enterprise in Uganda; this approach will of necessity be mostly descriptive and analytical. The second approach will involve the mounting of a survey to determine the present state of demand for credit in the small-scale sector of the Ugandan economy.

#### THE SUPPLY OF CREDIT TO SMALL-SCALE ENTERPRISE IN UGANDA

The Expatriate Banks.-- Until recently, one of the most important features of banking in Uganda as elsewhere in East Africa has been the domination of expatriate banks. But these banks, having close connections with British Banking interests, have derived much of their traditions and attitudes from the British Isles so that, while they have made a very valuable contribution to the economies in which they operate,<sup>6</sup> their contribution to medium and long-term credit especially to African small-scale enterprise has been negligible.

---

4. United Nations, Bulletin, p. 39.

5. Ibid., p. 39.

6. W.T. Newlyn and C.C. Rowan, Money and Banking in British Colonial Africa (Oxford: Clarendon Press, 1954), p. 94.

It is therefore to other institutions specially designed to cater for medium and long-term credit requirements of small-scale enterprise that one has to turn for data on the credit supply structure in this field.

The Uganda Credit and Savings Bank.--The Uganda Credit and Savings Bank was established in 1950 for the purpose of "Facilitating Loans to Africans in furtherance of Agricultural, Commercial, Building and Co-operative Society Purposes in the Protectorate and Matters Ancillary thereto."<sup>7</sup> However, experience elsewhere has shown that such descriptive material of charters or even annual reports may not always be very informative. "For it is after the creation of development bank that the thorniest problems arise; and it is the operating procedures and decision-making process much more than its capital structure and its organization chart, that provide the clues to why a development bank is or is not doing its job."<sup>8</sup>

It is therefore intended to study the actual operation of the Uganda and Credit Savings Bank over the last fifteen years or so, with the intention of determining what constitutes the most perplexing operational problems. The objectives will be partly to isolate the common important problems and choices faced in operating the UCSB and how these problems are being dealt with; and partly to accumulate knowledge and seek an understanding of the problems which confront small-scale enterprise in Uganda.

The technique to be applied will involve a selection of about 200 random sample of loan accounts which will be examined and analysed. On the one hand, such aspects as the establishment of the UCSB, its organization, the nature of its loans to small-scale enterprise, the nature of applications and applications procedures, appraisal of applications, purposes for which applications are granted, assistance to loan recipients, its administration of other Loan Funds, etc., will be studied. On the other, such relevant aspects to a successful commercial project as whether the project itself is badly or well conceived, whether the applicant has sufficient or insufficient entrepreneurial ability, whether conditions external to the enterprise are favourable or unfavourable, as well as such aspects as the misapplication of loans, and repayments, will be studied.

The Uganda Development Corporation.--Though at the time of writing this paper, no formal interview with the UDC had materialized, it was expected that plenty of relevant material and data for this study would be available from the UDC subsidiary company African Business Promotion Limited. A similar approach to that of the UCSB will be adopted especially as the financing of African Small Business is usually channeled through the UCSB. On the other hand, it is possible that a case study method will prove to be the more fruitful.

It is hoped that from these studies it will be possible to establish from this experience what the state of supply of credit to small-scale enterprise has been in relation to the demand for this kind of credit in Uganda in the last few years. This experience should reflect the background, situation and needs of Uganda, and changes--if any--that may have occurred pari passu with economic growth over the years.

---

7. Uganda Protectorate, Ordinance No. 20 of 1950.

8. Diamond, p. viii.

THE PRESENT DEMAND FOR CREDIT IN UGANDA

The objective of this section will be to establish the extent of effective demand for credit by small-scale enterprise in Uganda in order to appraise and assess possible alternative solutions that have been tried elsewhere in the under-developed world.

The method to be adopted will be that of a simple questionnaire to be sent to small-scale enterprise as determined from the list that will emerge from the present survey of industries in Uganda to be published shortly. The questionnaire will include such particulars as the name and address of the firm, general particulars about the nature of the business, nature of the project for which finance is needed, estimated capital cost of the project, estimated working capital of the project, proposed capital structure, management, raw materials, estimated labour requirements, economics of the project, estimated trading results, etc. Even more important, the questionnaire will include particulars about the extent and magnitude of present capital and the methods by which this capital has been acquired. This should point the way to any other sources of finance that may be completely outside the sphere of both the UCSB and the UDC. But bias of stratification and other biases will probably not be wholly avoided; this will also very much depend on the rate of responses received.

However, it is hoped that it will be possible to draw some realistic and useful conclusions from this survey.

---

This work is licensed under a  
Creative Commons  
Attribution – NonCommercial - NoDerivs 3.0 Licence.

To view a copy of the licence please see:  
<http://creativecommons.org/licenses/by-nc-nd/3.0/>