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SMALL SCALE ENTERPRISE DEVELOPMENT DIVISION ^{1/}

A brief description and evaluation
of small-scale enterprise financing in Uganda

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FINANCING OF SMALL-SCALE INDUSTRIES IN UGANDA

Financing of Small Scale Industries will be discussed in three stages namely:

1. The initial stage to start the industry
2. The progressive stage when industries are in production
3. The last stage when industries need expansion or are at a stage of collapse.

1. The Initial Stage

Small industries have been financed by mainly three groups:

- (a) The Entrepreneur himself.
- (b) The third party i.e. the lender
- (c) The Government.

(a) The Entrepreneur

Most of Small Scale industries in Uganda have been financed by the entrepreneurs themselves in the following ways:

Savings

There are three types of entrepreneurs who start industries on Savings.

The Marginal Earner

This is a prospective investor who accumulates capital through sacrifice of his marginal income. He would always wish to leave his present source of income and divert all his effort to the new enterprise.

The Surplus Income Earner

This is a prospective investor who has a good source of income which gives him a surplus after his basic expenses. The surplus will be put aside and accumulated to make a good sum that can start an industry as a second source of income. This type of investor will always stay with his present job (e.g. top Civil Servant, Professional in private practice like a Doctor or an Accountant, or a progressive farmer) and will delegate the management of the industry to someone else.

Inheritance and Wealth

Some entrepreneurs have started small scale industries from inherited wealth. These people are usually not prepared for such industries but find themselves with enough capital which induces them to go into business. They are therefore usually of limited investment knowledge.

(b) The Third Party Lenders

Some Small Scale Industries have been established from borrowed funds. Credits have been given to prospective investors by normally two types of persons:

The Family

These are the family members who can afford to spare some of their idle funds to others. But the practice has been confined only to friends. The loans have also been very difficult so much so that very few prospective investors have managed to benefit.

Also because of a little information given by the borrowers themselves, it has been discouraging to the would-be lenders to give such credits.

Financial Institutions

There are some financial institutions which have tried to help Small Scale Industrialists by giving them small short-term credits.

The Institutions are:

Uganda Credit and Savings Bank (The Uganda Commercial Bank)
Uganda Co-operative Development Fund; Libyan Arab Uganda Bank;
National Insurance Corporation; Uganda Wire Purchase Company and
Diamond Trust Company.

The problem with Small Scale Industrialists is that they normally lack proper securities to secure the loans.

(c) The Government

The Government has sometimes helped Small Scale Industrialists normally in form of subsidies to buy some equipments, Technical Assistance in form of technicians who offer in-plant trainings as the Seconded Officers with N.T.A.C. are and Training which is usually offered at the Rural Training Institutes set up all over the country.

2. Financing of Small Scale Industries during Operation Stage
(Working Capital)

Most of financial problems experienced by the Small Scale Industries are normally during the operation stage. Very often prospective investors underestimate their requirements for working capital, especially to buy raw materials, meet the growing wages bills, constantly changing transport costs and replacements of spare parts to the machineries.

The Marginal entrepreneur mentioned above is usually the hardest hit. With his limited income which he usually abandons and embarks on the enterprise, his hope of working capital financial resources are his expected profits. But the poor management technique usually practiced makes it difficult to make reasonable profits.

The entrepreneur with the surplus income gets some problems for working capital too.

Because he usually delegates the management of the enterprise, he cannot normally control the revenues and expenditures. He will normally depend on financing the enterprise the same way as he did to start it. He will therefore continue to use his surplus income to finance the working capital.

The entrepreneur who started on gifts or inherited wealth will most often have the same problems because of his poor management knowledge. The result of all these industries will be a failure in most cases.

3. The Final Stage (or Last Resort Financing)

The last stage to be considered for finance is when either the industry requires expansion or when it is almost failing to continue.

Expansion

Financing Small Scale Industries for expansion has been a big problem too.

The marginal income investor will normally find it difficult to expand his industry because of the limited financial resources he has. It is also normally difficult for him to get credit from the financial institutions mention earlier because of the limited securities he has. There are no easy terms for Small Scale industries to get credit facilities available. The existing terms are too elaborate and expensive.

The only quick way out for Small Scale Industrialists to get credits are through middlemen, (middlemen and large State Industries) which also become more expensive for the marginal income investors.

The surplus income investors can get such credits easily by using their influential positions. The trouble is however that these investors are not normally involved in the management and therefore their managers tend to misuse the credits. Their industries therefore tend not to develop as one could have expected after such credits have been secured.

In some isolated cases there have been favourable responses to such requests if the entrepreneurs have already shown their capabilities to utilize their profits.

With the assistance of the government, sometimes the entrepreneurs have had government backing in form of guarantees to the commercial banks and the Development Banks. But the progress and backing is very isolated indeed. As a result the Small Scale industries have failed to expand as anyone would wish to see them do.

Last Resort Financing

This is when the industry is at a stage of collapsing. If the industry was started from savings, this is a sign that the entrepreneur has already exhausted his sources of income to finance it.

One would expect the entrepreneur to have already even sold some of his property to get the industry moving. The result will be that he may have no more securities to offer to secure a "Saving" credit. If that is the case then he will have to get the guarantee of either a friend to back the credit or the government to guarantee.

A private guarantor can be found but it is unlikely to get the government guarantee unless the industry was engaged in the production of essential commodities and there is no way out. Otherwise most industries have been left to have their natural death.

If the government has been giving some kind of assistance, then the usual thing to do is either to advise the entrepreneurs concerned to form a co-operative society and save the particular failing industry or the government to take it over under Uganda Development Corporation if the industry was of essential nature to the public and there were no other industries to form a co-operative society with.

Evaluation

The Small Scale Industries have had many problems namely:-

- (i) Financial
- (ii) Management
- (iii) Production and
- (iv) Marketing.

Financial

The sources of funds to finance Small Scale industries have already been discussed. What remains to be said now is the way such sources have affected the planning of the industries.

The marginal investor feels entitled to his planning and therefore was not bothered to seek for advanced advice how to plan for the establishment and running of the industry.

Many Small Scale entrepreneurs have felt offended to be told that they would be more progressive to seek for professional advice before establishing their industries. This has been brought about by the fact that such professional advices have to be sought from the educated class who have not proved to be capable of raising any funds from their bigger salaries. What the Small Scale entrepreneurs fail to understand is that knowing to save is different from knowing how to utilise what is saved.

The result being that the entrepreneurs have sometimes been misguided by their convictions and have not bothered to seek professional advice or the professionals have not ventured to advise because they know (as it has always been the case) that the entrepreneurs will not take the advices seriously.

Those who have co-operated have benefited. The government has therefore taken the issue seriously and established a Small Scale Development Division under the M.T.A.C. to co-ordinate the two (the entrepreneurs and the professionals). The investors with surplus incomes have been also a difficult group.

The fact that they are usually the educated class in top positions and others in private practice, they have always tended not to admit that the industries usually they set up are not in their professional line. They have therefore taken very little care to consult the other professionals in the industries they want to establish. It could be that they have feared to expose their ignorance of other professions or that they have genuinely believed that they are the "JACKS OF ALL TRADE" which has proved that they are not masters of all trade in the end.

The reason why they sometimes delegate the management of their enterprises to relatives who have no technical or management knowledge at all is that they think they can act as advisors to their managers.

The Small Scale Development Division in M.T.A.C. will now seriously look into the issue and see how such problems will be solved.

The entrepreneurs who establish industries on borrowed money have their special problems arising from financial resources.

They are usually financed on security being offered to the lenders.

With the education being a recent thing in this country, most of the prospective entrepreneurs who have securities to offer are those who have not had good education. Those with good education have no good securities to offer. It therefore happens that those who can qualify for credit facilities have no good education. The management of their industries will therefore be poor. This has resulted into improper application of the funds and therefore a failure of the projects. Consequently the securities have been forfeited and the industries collapsed.

Management, Production and Marketing

The three are combined because they are usually a result of the same defect ——— poor Technical Knowledge..

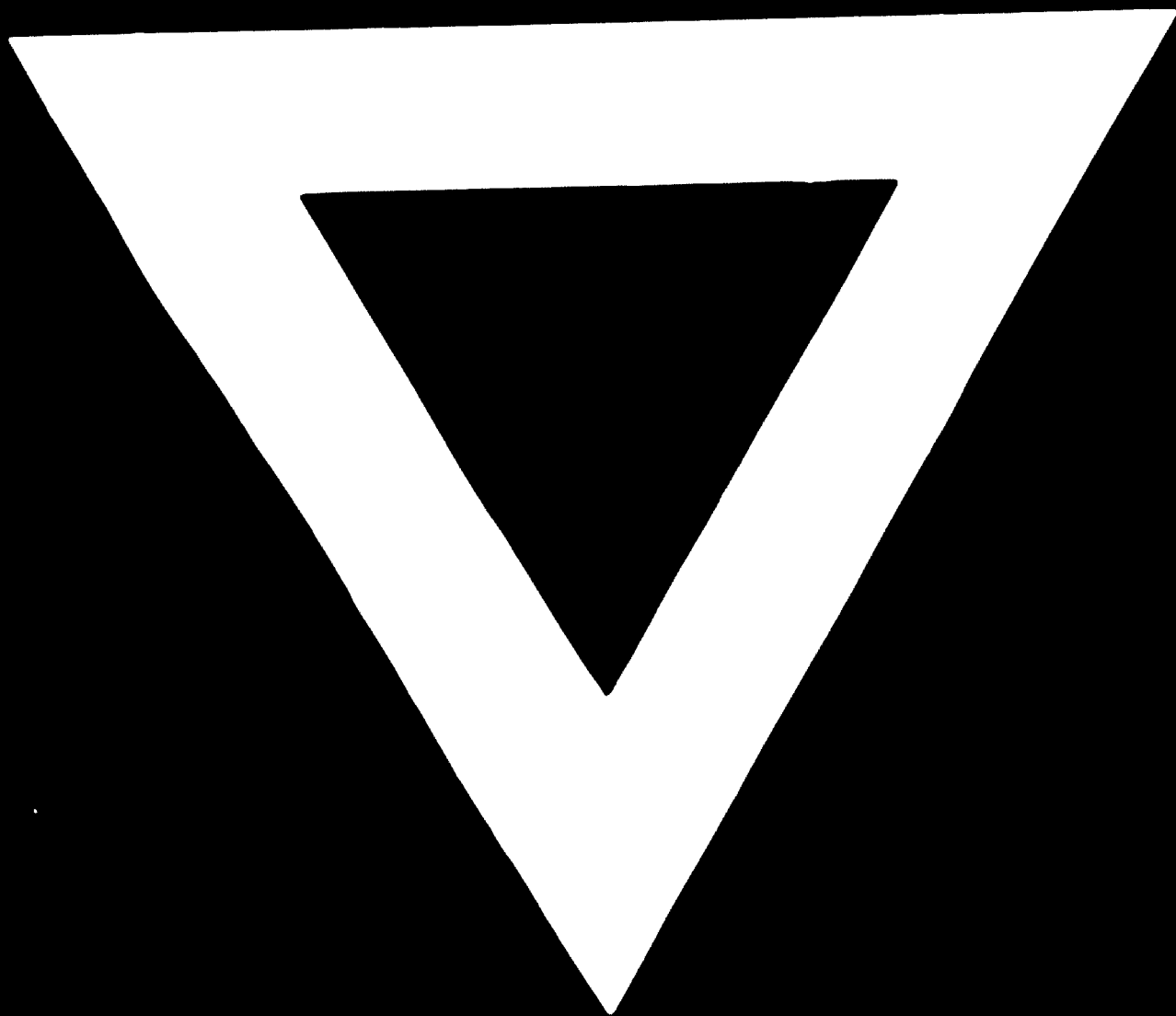
Most of Small Scale Entrepreneurs are not well educated as it has been already stated and the problems experienced are due to lack of knowledge.

To this we can add the disadvantages of Small Scale Industries which are:

1. Limited bargaining powers to get raw materials.
2. Unstandardised production because of poor machineries (they cannot afford mass-production)
3. Poor credit terms available to individual industry.
4. Lack of Scientific Research facilities because of limited financial Resources.
5. Dependence on local markets.

The government has however established the Industrial Estate now under Small Scale Development Division of M.T.A.C. which I hope will try to solve some of those problems.





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