UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

PROCEEDINGS OF THE SYMPOSIUM ON MODALITIES FOR FINANCING SMEs IN UGANDA

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NOTE

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PREFACE

The sustainable growth of the Ugandan economy is directly related to the rate of enterprise creation and development. This in turn depends on the ease with which small- and medium-sized enterprises (SMEs) can be started and financed, given their large contribution to the national economy. One of the critical constraints facing Ugandan SMEs has been widely acknowledged to be a lack of access to credit.

Obtaining the medium- to long-term financing they need from commercial banks if they are to realize their business potential remains the major obstacle for SMEs. Without finance, SMEs cannot acquire new technologies, compete in the global market or establish linkages with larger firms.

Uganda's banking sector has a history of high default rates, discouraging banks from lending to local SMEs that are known to have higher risks and transaction costs. At the same time, there is fierce competition among banks, donors, international financial institutions and investment authorities for bankable and/or fundable projects. There is thus a gap to be filled between potential borrowers and lenders.

The Central Bank of Uganda, the Bank of Uganda, is unique in that it is concerned both with monetary stability and development, particularly of local enterprises. Accordingly, the Bank of Uganda invited UNCTAD and Enterprie Uganda to organize a one-day symposium as an opportunity for all stakeholders to identify obstacles and solutions.

While insufficient domestic savings is often mentioned as contributing to the lack of financing for SMEs, the Bank of Uganda reported that there was in fact sufficient liquidity in the banking sector. This was confirmed by commercial bank representatives, in whose view the real problem was a lack of bankable SME projects and a lack of creditworthy SMEs.

The dialogue between the Government, the bankers and SMEs resulted in the formulation of a plan of action for all stakeholders and the creation of a special SME task force to follow up on the recommendations. UNCTAD is actively involved in steering the Task Force.

It is encouraging to see that both public and private sectors are combining their efforts to remedy a market failure in Uganda's economy which is preventing it from realizing trade and investment opportunities in the post-Doha period. We hope that under the auspices of the Task Force, Ugandan SMEs will see improved access to medium- and long-term finance which can help them to build the productive capacity needed to compete in the global market. It is also hoped that Uganda will set a valuable example to neighbouring African countries in moving ahead on their own initiative.

Rubens Ricupero
Secretary-General of UNCTAD
Geneva, December 2002

INTRODUCTION

The symposium on "Modalities for Financing Small- and Medium-Scale Enterprises" took place on 30 April 2002 at the International Conference Centre in Kampala, Uganda and was attended by about 260 participants from SMEs, commercial banks, government offices and the donor community. The principal objectives were:

- To create a platform for public-private sector dialogue;
- To identify the main obstacles to SMEs' accessing finance from formal sources;
- To suggest practical solutions and innovative ways to resolve the problem; and
- To formulate an action plan to be used as a road map by stakeholders in implementing the symposium's recommendations.

In a keynote address, Mr. Gerald Ssendula, Minister of Finance, Planning and Economic Development, acknowledged the significant role played by SMEs in Uganda's economic growth and called for better measures of their contributions. He said that SMEs must understand why banks were discouraged from lending to SMEs. But he also requested banks to develop more positive attitudes towards SMEs. The symposium would be a step in the right direction for healthy interaction among SMEs, banks, the Government and the donor community, and he welcomed recommendations to be submitted at the end of the symposium, which could be included in his forthcoming budget.

While insufficient domestic savings is often given as a reason for a lack of financing for SMEs, the Bank of Uganda reported that there was in fact sufficient liquidity in the banking sector. This was confirmed by commercial bank representatives and in their view, the real problem was a lack of bankable SME projects and a lack of creditworthy SMEs.

The Symposium's question-and-answer sessions were particularly useful for interaction among participants. During the Symposium, the banking community repeatedly emphasized the importance of improving SMEs' accounting in order to demonstrate to the commercial banks the soundness of their business prospects and their ability to repay loans.

The discussions revolved around the following questions:

1. What are the reasons for limited access to credit and other forms of finance for SMEs? How can SMEs themselves resolve this problem?

2. How can existing financial and banking institutions improve their level of financial intermediation for SMEs?

3. What government intervention is required in order to enhance and coordinate delivery of credit to SMEs?

4. What roles can the donor community, non-governmental organizations (NGOs) and private-sector intermediaries play in improving SMEs' access to finance?

The discussions resulted in the drafting of a plan of action for the Government, SMEs, business development service providers, commercial banks and the international community, as well as a set of recommendations for immediate action by the Minister of Finance, Planning and Economic Development (see part