



CSBAG BUDGET NEWS BRIEF



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Advocating for a People Centered Budget that Dignifies Humanity



SMEs credit dilemma in Uganda today

UPCOMING EVENTS

Event: CSOs training on budgeting and public finance management.

Date: 29-30th August 2016

Convener: Civil Society Budget Advocacy Group.

Event: CSO Joint Agricultural Sector Annual Review-

Date: 29-30th August 2016

Convener: Ministry of Agriculture

Event: CSBAG & CARITAS Uganda side event: JASAR- Agriculture Financing in Uganda

Date: 30th August 2016

Convener: CSBAG and CARITAS UGANDA

CIVIL SOCIETY BUDGET ADVOCACY ROADMAP FY 2017/18

Gov't Budget Event	CSO budget event	Timeline
Local Government Budget Consultative workshops	CSO Regional consultations on FY 2017/18 budget Presentation of CSO position in the Local Government Budget Consultative workshops organised by Ministry of Finance	August 2016
Sector Working Group Meetings	Develop CSO sector specific performance analysis for FY 2015/16 for presentation	September – October 2016
National Budget Conference	Analyze Budget Strategy paper FY 2017/18	December 2016
Parliamentary Review of the NBFP FY 2017/18	CSO analysis of the National Budget Framework paper FY 2017/18 Parliamentary committee engagements on CSO position on NBFP FY 2017/18	January 2017
Parliamentary review of the Ministerial Policy Statements	CSO analysis of the Ministerial Policy Statements and Tax bills FY 2017/18 Parliamentary committee engagements on CSO position on Ministerial Policy Statements and Tax bills for FY 2017/18 CSO Pre budget Public debate	March – May 2017
Approval of national budget and tax bills	Know Your budget Campaign Citizens Budget listening conference CSO Pre budget Public debate	May – June 2017
Budget implementation	CSO Quarterly budget monitoring	FY 2016/17 (July 2016 – June 2017)

“Financing decision of SMEs operations remains the greatest implication especially in their daily operation in Uganda. CSBAG shares the analysis and policy recommendations for better performance”



UK Supports businesses including SMEs to start to export | Photo Credit to red paper

Its common knowledge that credit availability, accessibility and above all affordability is crucial in driving the engine of Small and medium-sized enterprises (SMEs) not only in Uganda but worldwide.

However, it is important to note that credit accessibility has increasingly become a challenge in Uganda due to the high lending rates by the commercial banks standing in the range of 23% to 25% way higher than the central bank rate (CBR) standing at 14% (Bank of Uganda, 2016).

Furthermore, Lending rate has been left to be determined by the market forces of demand and supply which with no deliberate action by the central bank to lower these rates may pause a big challenge to the operations of the SMEs in Uganda.

“There is no doubt that the SMEs contribute immensely to the development of the nation in terms of taxes to the state, creation of employment, provision of quality goods and services to the larger public at a moderately condensed prices as well as its influence to poverty alleviation.”

Nevertheless, many micro finance institutions lend to very poor people expecting to start a business in Uganda today in disguise of quick loans. Yet, such “micro-credit” is typically minute, transient and very expensive.

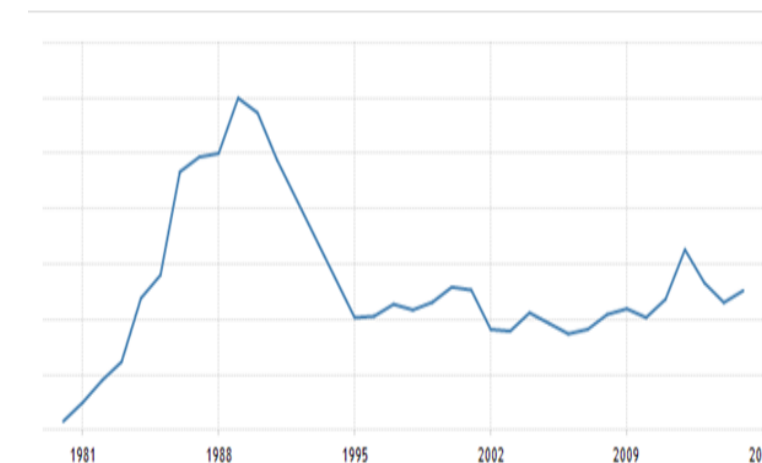
The other implication of such is that funds are channeled to minute, unproductive businesses, often with no employees

leaving out more substantial firms, with greater prospects for growth to look at the commercial banks for rescue

Implications of SMEs to the business economy in Uganda.

- I. Financing decisions of SMEs operations remains the greatest implication especially in their daily operation, which of course is fundamentally impacting on their potential to ensure that their businesses remain a going concern. This slows down business operation and hence reduces profit margin of MSMEs.
- II. Higher interest rate increases the chance of default in payment by the SMEs, this threatens closure of their business and loss of property to the lenders hence completely driving them out of business, which directly reduces their household incomes and leaving standards.
- III. Furthermore the higher the interest rate the lower the returns on capital employed, this is because the biggest share of returns on capital employed go to loan repayment.
- IV. The Government higher lending rates have got an implication on the taxes collected from SMEs, it's obvious that as SMEs close business due to high cost of doing business, the tax base is reduced which in the long run affects government expenditure and service delivery.

Figure 1: The lending rates trend in Uganda since 1981



Source: World Bank indicators: Uganda lending rates trends CSBAG policy recommendations

Whereas, there have been debates after Kenya reduced the lending rates, citing that this may have negative effects especially on supply of money and its consequences, we strongly recommend that an artificial ceiling on lending rates be deliberately established by the central bank below the prevailing market lending rate determined by the market forces of demand and supply to enable SMEs afford such credit and remain in business.

Entrepreneurs should organize associations and organize seminars and/or workshops for entrepreneurship skill attainment and loan servicing and investment alternatives and also think about schemes such as saving groups which will avail them financial alternative towards running the operations of their