ACCESS TO FINANCE AND PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES. A CASE STUDY OF SELECTED SMEs IN MBARARA MUNICPALITY

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A RESEARCH REPORT SUBMITTED TO THE FACULTY OF BUSINESS AND DEVELOPMENT STUDIES IN PARTIAL FULFILLMENT OF REQUIREMENTS FOR THE AWARD OF BACHELORS' DEGREE IN BUSINESS ADMINISTRATION OF BISHOP STUART UNIVERSITY.

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DECLARATION

The material in this report has never been submitted to any university or institution of higher learning for academic qualifications. This report is a report of my own independent research effort and investigations. Where it is indebted to the work of others, the acknowledgement has made.

Signature:…………………………….. Date:………………………….

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APPROVAL

This work has been supervised and is now ready to be submitted to the Bishop Stuart University with the approval of the supervisor.

Signature:………………….. …….   Date:…………………………

MR.FREDDIE RUKUNDO

DEDICATION

To my Dad Mr. Ahimbisibwe Jackson , My mother Mrs. Immaculate Tibassimwa my brother Rogers, Edson, Boaz, Canada, my sister Connicious, Erogia and Ayebazibwe and also those who have made an impact in my life to make it what I am today.

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I would like to thank the almighty God for the gift of life and guiding me throughout my education and this research for his mercy was always with me.

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABSTRACT

The study was carried out to determine the effect of access to finance on the performance of small and medium enterprises in Uganda. In particular, the study sought to explore the experiences of small and medium enterprises borrowers in access financial services. The main objectives of this study included; establishing the source of finance for SMEs, Establishing the

factors that influence the performance of SMEs and establishing the relationship between access to finance and performance of SMEs.

The researcher used both descriptive and analytical research designs. The research designs were appropriate because data was easily analyzed using frequency counts and percentages derived from the responses obtained in the questionnaires.

From the study, it is clear that there is great demand for financial services by SMEs, On the other hand, it s also evident that the supply for financial services is rampant from both formal and informal financial institutions. Even with all this demand and supply, SMEs continue to face myriad of challenges in trying to access financial assistance from these financial institutions. collateral requirements has been cited as a major cause of these financing problems coupled with misuse of funds meant to assist SMEs grow into sustainable ventures. Lack of know how by small business owners about financing policies of these institutions have made SMEs incur losses in the repayment process since they end up making less than they borrowed hence some of them are forced to close down. In case they continue operating, they are incapable of acquiring a subsequent loan.

From the study undertaken, the researcher found out there is a weak relationship between access to finance and performance of SMEs having a correlation of 0.386 Based on the results, the study recommends that there is need for commercial banks to promote transparency by regularly publishing bank charges and interest rates in the print media, as is done in Kenya. This is likely to increase competition and thus ultimate reduction in interest rates. Serious awareness programs have also been advocated to spread the know-how on the policies of fund application. Introduction of small loaning programs for SMEs has also been advocated

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Finance has been identified in many business surveys as the most important factor determining the survival and growth of small and medium –sized enterprises in both developing and developed countries. Access to finance is the ease with which Small and Medium Enterprises (SMEs) can get finance to undertake productive investments to expand their businesses and to acquire the latest technologies, thus ensuring their competitiveness and that of the nation as a whole (UNCTAD 2002) or it can be defined as an absence of price and non price barriers in the use of financial services (world bank 2008). While performance is process or manner by which SMEs execute their function. Firm performance can be measured with different indicators, such profitability, and growth in employment, production level, or even sales. In addition, firms also have their own performance indicators (Meyanathan and Munter 1994; McCormick and Atieno 2002; Okech, Mitullah and Atieno 2002).

Access to finance refers to the possibility that individuals or enterprises can access financial services including credit, deposit, payments, insurance, and other risk management services (Honohan 2008). Access to finance refers to whether or not a person has an account with a given financial institution or has made use of it (Anjali,2005). Access to finance is indicated by access to savings, access to credit, access to financial markets, government involvement for example providing grants to developing enterprises, level of profits, company dividends decision (Anjali 2005). Access to finance is categorized into voluntary and involuntary non-users of financial services (Porteous May 2005). Access to finance can influence the growth of entrepreneur behaviors among small and medium enterprises. SME's can acquire new technologies, compete in the global markets and also establish linkages with larger firms (Ruicupero Dec. 2002).

Small Enterprise businesses operate from fixed premises that are of a permanent nature e.g. shops. They employ family labor (including extended family) but the total number of people employed may not exceed 20 people. They require little capital to be started. Their periodical sales are relatively higher than those of micro businesses. They may use some basic and some technology in their production systems. They are generally easy to start and operate and may not require formal registration. Examples of small businesses include shops, bakeries, millers, etc. The relatively well established small businesses may produce for export either directly or through large businesses. However, the majority of small businesses produce for the local market.

A Medium Enterprise these are very well established businesses, which may employ up to 100 people. They operate from well-established and permanent business premises. They use advanced technology and produce on a relatively large scale. They require a lot of capital to be started and such businesses are formally registered as limited liability companies. These businesses may be producing for the local as well as the export market. Examples of such businesses include big bakeries, milk processing and packaging businesses, coffee hulling factories, mattress manufacturing factories, etc.

Small and Medium Scale Enterprises (SMEs) as defined by the National Council of Industries (2009) refer to business enterprises whose total costs excluding land is not more than two hundred million naira (N200,000,000.00) only. Although, there exists no consensus among policy makers and scholars concerning the point at which a business firm is deemed to be small or medium. Indeed, there is no universally or even nationally acceptable standard definition except that the scale of business needs to be defined for a specific purpose. The problem of SMES identification is more acute in the developing countries because apart from the fact that , small and medium scale business are difficult to count, they are also difficult to measure individually, hence statistics on the number, size, geographical distribution and activities of enterprises and the SME sub-sectors are partial and highly unreliable (USAID,2004).

Developing nations such as Nigeria are characterized as low income earners by the World Bank, value small and medium scale enterprises (SMEs) for several reasons. Viewed in statistic terms, the main argument is that SMEs, on average achieve decent levels of productivity especially of capital and factors taken together (that is, total productivity factor) while also generating relatively large amount of socio-economic development. In dynamic terms, the SMEs sector is viewed as being populated by firms most of which have considerable growth potential. SMEs in developing countries achieve productivity increases to a great extent simply by borrowing from the shelf of technologies available in the world (Christopoulos and Tsionas, 2004).

In Uganda, SMEs are increasingly taking the role of the primary vehicles for the creation of employment and income generation through self-employment, and therefore, have been tools for poverty alleviation. SMEs also provide the economy with a continuous supply of ideas, skills and innovation necessary to promote competition and the efficient allocation of scarce resources. In 2010, Uganda was estimated to have over 1,500,000 enterprises classified as SMEs and forming 90 percent of Uganda's private sector. SMEs employ approximately 1.5 million people equivalent to 90% of total non-farm private sector worker (John Walugembe Presentation), most of SMEs are involved in trading, agro processing and small scale manufacturing. Majority of SMEs are located in Mbarara Municipality and the south western region.

1.2 Problem statement

Despite the increase in credit institution, SMEs have little access to finance from MFIs, which hamper their performance and eventual growth Mosley (2001). Also SMEs operate with limited capital which has not been enough for them to meet the costs of operation. As a result, many of them have resorted to borrowing basically from MFIs institutions with the intention of acquiring more funds for expansion in order to enjoy economies of scale and become competitive in the market and boost their financial performance (Okurut and Bategeka, 2006).

Despite of the above, many SMEs in Uganda have continued to register poor performance. From a pilot study of SMEs In Mbarara municipality areas, the findings were: out of 10 shops in each area, an average of 4 source money from MFIs and other financial institutions while the rest rely on donations or personal savings and performance of SMEs has continued to decline by 5% from 2006 to 2008 and by 10% from 2009 to 2010 (Mbarara Municipal report, 2010). This could be due to failure to cope up with high interest rates, collateral requirements, high and multiple transaction costs that include application fees, processing fees, insurance and compulsory savings. Most banks perceive SMEs as being risky. The perception is that small clients do not have stable, viable businesses for which to borrow and from which to generate loan repayment**.** This study was therefore intends to examine the extent to which access to finance affects the performance of small and medium enterprises.

1.3 Purpose of the study

The purpose of the study was to establish the extent to which access to finance affects the performance of small and medium enterprises.

1.4 Objectives of the study

The study was guided by the following specific objectives:

i. To establish the major source of finance to SMEs.

ii. To determine factors that influences the performance of SMEs.

iii. To assess the relationship between access to finance and the performance of small and medium enterprises

1.5 Research questions

i. What are the major sources of finance for SMEs?

ii. What factors influences the performance of SMES?

iii. What is the relationship between access to finance and the performance of small and medium enterprises?

1.6 Scope of the study

1.6.1 Geographical scope

This study was carried out in Mbarara Municipality, Mbarara district of Western region of Uganda. Mbarara Municipality was selected because it has many small scale enterprises and financial institutions. It is also easier to access these small scale enterprises by the researcher because most of them are situated in the center of the Municipality.

1.6.2 Content Scope

The study was sought to find out the effect of access to finance on the performance of small and medium enterprises. The study was conducted in Mbarara Municipality in Mbarara district and the study findings will relate to the period between 2008 and 2014

1.7 Significance of the study

The information that was captured in this research is aimed mainly to assist owners of SMEs in determination of procedures and policies adopted by MFIs and other financial institutions from which they obtain financing.

It was to help small entrepreneurs in tackling the stringent terms and conditions required by the financing institution. Micro-finance institutions also use the information obtained from this study to determine in depth the various challenges SMEs face in their access to financing from inception through all stages of development.

A broader access to financial services and credit help the country as a whole in achieving its objective of improving income distribution while expanding opportunities through enhancement of entrepreneurial capabilities in the SME sector.

CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

This chapter provides an insight of the related literature on the study of variables. It provides literature on major aspects of the research, which include small and medium enterprises, access to finance, performance. This was fulfilling the purpose of the study of relating the access to finance by SMEs to their performance.

2.1 Definition of SME'S

The lack of a universal definition for SMEs is often considered to be an obstacle for business studies and market research. Definitions in use today define thresholds in terms of employment, turnover and assets. They also incorporate a reasonable amount of flexibility around year-to-year changes in these measures so that a business qualifying as an SME in one year can have a reasonable expectation of remaining an SME in the next. The thresholds themselves, however, vary substantially between countries. As the SME thresholds dictate to some extent the provision of government support, countries in which manufacturing and labor-intensive industries are prioritized politically tend to opt for more relaxed thresholds (Oketch, H., A. Abaga and D. Kulundu. 1995).

The term SME covers a wide range of definitions and measures, varying from country to country and between the sources reporting SME statistics. Although there is no universally agreed definition of SME some of the commonly used criteria are the number of employees, value of assets, value of sales and size of capital as well as turnover. Among them the most common definitional basis used is employees because of the comparatively ease of collecting information and here again there is variation in defining the upper and lower size limit of an SME. In developing countries the number of employees and size of asset or turnover for SME tend to be much smaller compared to their counterparts in developed countries due to their relative size of business entities and economies (Parker, J. C. and T.R. Torres. 1994. "Micro and small enterprises in Kenya: Results of the 1993 national baseline survey" Sponsored by USAID.).

SME Finance is the funding of small and medium sized enterprises and represents a major function of the general business finance market in which capital for firms of types is supplied, acquired, and cost/price. Capital is supplied through the business finance market in the form of bank loans and overdrafts; leasing and hire-purchase arrangements; equity/corporate bond issues; venture capital or private equity; and asset-based finance such as factoring and invoice discounting. (Adams, D.W. 1992 "Taking a fresh look at informal finance". In D.W. Adams and D.A. Fitchett, eds., *Informal Finance in Low Income Countries*, Boulder: West view Press.).

However, it should be noted that not all business finance is external/commercially supplied through the market. Much finance is internally generated by businesses out of their own earnings and/or supplied informally as trade credit (i.e., delays in paying for purchases of goods and services).

2.1.1 Importance of SME in Socio-Economic Development

There is a general consensus that the performance of SMEs is important for both economic and social development of developing countries. From the economic perspective, SMEs provide a number of benefits (Advani, 1997). SMEs have been noted to be one of the major areas of concern to many policy makers in an attempt to accelerate the rate of growth in low-income countries. These enterprises have been recognized as the engines through which the growth objectives of developing countries can be achieved. They are potential sources of employment and income in many developing countries.

SMEs seem to have advantages over their large-scale competitors in that they are able to adapt more easily to market conditions, given their broadly skilled technologies. They are able to withstand adverse economic conditions because of their flexible nature (Kayanula and Quartey, 2000). SMEs are more labour intensive than larger firms and therefore have lower capital costs associated with job creation (Anheier and Seibel, 1987; Liedholm and Mead, 1987; Schmitz, 1995). They perform useful roles in ensuring income stability, growth and employment. Since SMEs are labour intensive, they are more likely to succeed in smaller urban centers and rural areas, where they can contribute to a more even distribution of economic activity in a region and can help to slow the flow of migration to large cities. Due to their regional dispersion and their labour intensity, it is argued, small-scale production units can promote a more equitable distribution of income than large firms. They also improve the efficiency of domestic markets and make productive use of scarce resources, thus facilitating long-term economic growth (Kayanula and Quartey, 2000).

SMEs contribute to a country's national product by either manufacturing goods of value, or through the provision of services to both consumers and/or other enterprises. This encompasses the provision of products and, to a lesser extent, services to foreign clients, thereby contributing to overall export performance. SMEs also account for about 90% of the formal business entities in Uganda, contributing 80% of GDP and providing about 61% of employment (CSS, 1998; Ntsika, 1999; Gumede, 2000; Berry *et al.*, 2002).

From an economic perspective, however, enterprises are not just suppliers, but also consumers; this plays an important role if they are able to position themselves in a market with purchasing power: their demand for industrial or consumer goods will stimulate the activity of their suppliers, just as their own activity is stimulated by the demands of their clients. Demand in the form of investment plays a dual role, both from a demand-side (with regard to the suppliers of industrial goods) and on the supply side (through the potential for new production arising from upgraded equipment). In addition, demand is important to the income-generation potential of SMEs and their ability to stimulate the demand for both consumer and capital goods (Berry *et al.*, 2002).

2.1.2 Categories of small and medium enterprises in Uganda

The following are the various types of SMES operating in Uganda according to proceedings of the symposium on modalities for financing SMEs in Uganda UNCTAD 2002.

2.1.2.1 Survivalist enterprises

Are activities by people unable to find a paid job or get into an economic sector of their choice. Income generated from these activities usually falls far short of even a minimum income standard, with little capital invested, virtually no skills training in the particular field and only limited opportunities for growth into a viable business. Poverty and the attempt to survive are the main characteristics of this category of enterprises. Given the large number of people involved in survivalist activities, this constitutes a vast challenge, which has to be tackled within the broader context – Quick economic activities – No skills

2.1.2.2 Small enterprises

Are very small businesses, often involving only the owner, some family member(s) and at the most one or two paid employees. They usually lack 'formality' in terms of business licenses, value-added tax (VAT) registration, formal business premises, operating permits and accounting procedures. Most of them have a limited capital base and only rudimentary technical or business skills among their operators. However, many micro enterprises advance into viable small businesses. Earning levels of micro enterprises differ widely, depending on the particular sector, the growth phase of the business and access to relevant support. Small enterprises constitute the bulk of the established businesses, with employment ranging between five and about 50. The enterprises will usually be owner-managed or directly controlled by the owner-community and are mostly family owned. They are likely to operate from business or industrial premises, be tax-registered and meet other formal registration requirements. Classification in terms of assets and turnover is difficult, given the wide differences in various business sectors like retailing, manufacturing, professional services and construction – Lack formalities

2.1.2.3 Medium enterprises

They constitute a category difficult to demarcate vis-à-vis the "small" and "big" business categories. It is still viewed as basically owner/manager-controlled, though the shareholding or community control base could be more complex. It is characterized by the employment of more than 200 employees and capital assets of a substantial amount of about Ush 2million (excluding property)

2.2 Sources of SMEs financing

Financial support systems include all external sources of finance available to enterprises. The range and quality of financial services vary according to the existence of a well-functioning banking system, the sophistication of financial markets, and the availability of (semi)informal intermediary agents specializing in supplying financial services to the most needed. Internal sources of finance (entrepreneurs own savings) and those provided through family and friends (gifts and soft loans) are not part of a country's financial support system, though there is the need to take them into account as they constitute the main source of SME finance in Africa. (Kariuki, P. 1995 *Small Enterprises Development, v*ol. 6)

These internal sources account for around 90 per cent of enterprise start-up finance in Uganda, Malawi and Ghana. Formal loans from an organization, bank, or moneylender are relatively uncommon at the enterprise formation stage. Therefore, it appears that financial support systems do not really serve the needs of start-up entrepreneurs in Africa, who tend to finance themselves with the help of friends and relatives. The inability of access external finance at this early stage is considered to be an important part of the explanation for the high failure rate of start-up micro-enterprises in Africa. Interestingly, similar evidence has been found in newly industrialized countries whereby SME financial support structures are more comprehensive and developed ((Berry *et al.*, 2002). It is when the enterprise is established and with a measure of credibility that formal financing becomes more accessible to SMEs, though informal finance from internal sources remains predominant.

2.2.1 Available Financing for SMEs in Uganda

2.2.1.1 Banking Sector Financing

Commercial banks constitute the main providers of financial services for enterprises. In Africa, they used to be dominated by foreign banks, but since the 1980s, a significant number of private-owned banks have developed in most countries. Commercial banks offer a wide range of financial services including savings, deposits, credits, transfers, insurance arrangements, and even leasing. The main lending mechanism is short-term working capital; however, the availability of other financial services depends on the nature of the deposits that are being used for funding, as well as the demand for it.

Given their profit-making principles, commercial banks find difficult to provide financial services to SMEs because SMEs are considered „high risk" clients. Poor or incomplete business plans, when at all presented, make difficult the task of assessing the financial situation of such firms and their prospects for success. Second, transaction costs are inversely related to loan size, making lending in small amounts unprofitable. Third, restrictive financial policies impede commercial banks to set up their own mechanism of loan recovery, therefore limiting how much they can lend and to whom.

Bank loans: Commercial banks are the main source of financial services but unfortunately they rarely lend to small scale enterprises due to the fact that these small scale enterprises operate with high risks (Nanyonjo, et al, 2004). This finding was supported by (Kasekende and Pondo, 2005) in their findings that much as small scale enterprises have the need for the assistance from the banks, they are less attractive to commercial banks due to the high risks associated with high costs of production, low returns on their investments and yet lack collateral securities. This study will evaluate this claim.

2.2.1.2 Micro-financing

This industry has proved to be a reliable delivery vehicle for financial services to SMEs. They consist of licensed institutions, NGOs co -operatives as well as a large collection of associations ranging from women and youth clubs to loosely organized bodies. They offer savings, payments and insurance services to their clients. The strength of MFIs is that they serve the rural areas at low costs. Their service delivery is flexible, which makes it easy for weak SMEs to access financial services from them. Their weaknesses, though, lie in their weak operational and management information systems, poor internal controls, limited access to technical assistance, and dependence on donor funding. A centre has been set up at the Uganda Institute of Bankers to address the issue of capacity building of these MFIs.

Micro financing: Vasiliades (2001) observed that the industry of micro finance has proved to be a reliable delivery vehicle for financial services to SSEs. They consist of licensed institutions, NGOs co-operatives as well as a large collection of associations ranging from women and youth clubs to loosely organized bodies. They offer savings, payments and insurance services to their clients. The strength of Micro finance Institutions (MFIs) is that their service delivery is flexible, which makes it easy for weak SSEs to access financial services from them. Their weaknesses, though, lie in their weak operational and management information systems, poor internal controls, limited access to technical assistance, charging high interest rates and dependence on donor funding. However, a centre has been set up at the Uganda Institute of Bankers to address the issue of capacity building of these MFIs

2.2.1.3 Venture Capital Financing

Venture capital: This refers to investment of long-term equity, whereby professional investment firms seek high risk, high return investment ventures. Usually the venture capitalist and the entrepreneur become partners in the investments as a method of financing this method is suitable for high technology companies. Which do not mind availing themselves with risky capital (Gretchen, 2006). Venture capital is becoming an increasingly important source of finance for growing companies. Venture capitalists are groups of (generally very wealthy) individuals or companies specifically set up to invest in developing companies.

Venture capital is equity investment provided by an outsider who is not the owner of the company. The concept behind venture capital is very simple. Instead of obtaining debt or bank finance, venture capitalists provide equity capital for other businesses, therefore sharing risks. It is a form of long-term investment for start-up and growing businesses that are seen as having a significant potential for economic growth (UNIDO, 2002 b).

Venture capitalists are on the lookout for companies with potential. They are prepared to offer capital (money) to help the business grow. In return the venture capitalist gets some say in the running of the company as well as a share in the profits made. Venture capitalists are often prepared to take on projects that might be seen as high risk which some banks might not want to get involved in (Linda Cloete, 2007). Venture capital funds now invested in companies which are in their early phases. Some of the funds also provide added value services similar to those offered by incubators. Nevertheless, it should be kept in mind that the investment process of venture capital funds is generally very long, and funds prefer to invest only after the business and technological models are clarified. Therefore, funds may prove a good source for seed financing, but not for pre-seed financing. Moreover, funders who declare themselves to be "seed investors" are not always capable of providing an infant company with the type of intimate support it requires (Robbins, 2005).

Joint venture also called issue share, two or more parties join together to start up a business hoping it will grow make profits and will be a going concern business. The joint parties share revenues, expenses and control of the business (Trehan, 2002). The benefits of venture capital go beyond the provision of long-term finance. Since they share risks, venture capitalists, unlike banks, get actively involved in the functioning of the firm, from management to shop-floor operations. Given their knowledge gained from investing in other companies with similar growth challenges, venture capitalists or „business angels‟ can help their investors in overcoming the specific bottlenecks that hamper their performance. Following profit-making principles, venture capitalists seek high-return opportunities while minimizing risks. In the developed world,

„business angels‟ have played a significant role in the success of small export-oriented high-tech firms, particularly in the fields of electronics and ICT.

Savings: A significant proportion of the initial capital, both fixed and working for SSEs is obtained from personal savings accumulated from other activities. Similarly, expansion of SSEs is mainly financed from internally generated funds. This situation has frequently led to the argument that SSEs, particularly rural SSEs, do not exhibit a high demand for external sources of finance (i.e. credit). However, the implication being that personal savings alone could not be expected to meet the entire demand for finance by the SSEs given the likelihood of smaller savings because of lower incomes (William, 2004).

2.2.1.4 Leasing

Leasing has been an alternative means of financing capital investment of SMEs with minimum initial outlay. In Uganda, the industry is still too small and young comprising only one leasing company. A lease is a contract between an owner of equipment (the less or) and another party (the lessee) giving the lessee possession and use of a specific asset in return for payment of specified rentals over an agreed period. The lessee selects the equipment and the less or purchases it for the former's use.

Advantages of leasing for SMES:

It reduces the collateral requirements of formal lending, as the asset leased constitutes the collateral itself. Thus, borrowers without well-documented balance sheets or credit histories can still have access to capital equipment.

It encourages **SMEs** to use the working capital for productive purposes, thereby having a potential to generate significant economic impact.

Leasing is particularly important for companies with need of long-term working capital, which most institutions are unsuited to provide.

On the less or side, it solves the problem of equity finance when the bank provides the service itself, thereby reducing the supervision and imposition restrictive rules by a third party.

It reduces transaction costs as there is no need of screening detailed business plans proper of conventional financial services.

2.2.1.5 Capital markets

The development of stock markets is the most sophisticated phase in the evolution of any financial sector. In the last years, stock markets have been created through Africa partly due to stringent privatization policies and the establishment of capital market authorities. Some are country-specific while other are regional or pan-African. Uganda's capital market became fully fledged with the inception of the Uganda Stock Exchange (USE) in 1998. However, most SMEs cannot take advantage of the Exchange because of listing rules regarding disclosure requirements, which require companies to provide credible information to investors. The banking sector has offered equity financing to a few successful SMEs. For example, SMEs such as UGACHICK LTD and COMMERCIAL MICROFINANCE LTD have received equity financing from Messrs Development Finance Company of Uganda (DFCU), East African Development Bank (EADB) and the European Investment Bank (EIB).

2.2.1.6 Trade credit

This is realized whether the supplier does not require immediate payment of goods supplied to the business to the extent of the credit period given. This is seen as a short-term source of finance because it's usually less than one year and because it gives the firm the time to invest in the money it would have otherwise used to pay the supplier and possibly pay more pressing expenses (Cherian, 2008).

Trade credit is a period of time given to a business to pay for goods that they have received. It is often 28 days but some businesses might not pay for 6 months and on some occasions even a year after they have received goods. For many small firms, this effectively means they are getting some funds for free. Assume that the bill for a delivery of goods comes to £8,000 for Mukwano group of companies. If they have 28 days before they have to pay they have effectively received a loan of £8,000 from their supplier for 28 days - interest free. This gives the business the time to be able to manage their finances and balance their cash flows more effectively (Okello-Obura 2004).

Trade credit is a loan in the form of goods. Trade credit is given by one firm to another firm which buys goods. This credit range from 15 days to 3 months is granted on the basis of good will of the purchaser. Trade credit is given by the seller to the buyer of goods. It is extended by the whole seller to the retailer. Such credit facility may be called a trade credit (Manishi, 2006).

2.2.1.7 Overdraft facility

It is the extent that a business is allowed to overdraw its account. For example, if a firm has 30m on its account, the bank may allow it to over a maximum of 10m such that at any one time, the firm can be able to tap a total of 40m from its account (Stevenson, 2001).

Most businesses which have an account with a bank, the bank deals with all the deposits (money put into the account) and withdrawals (money taken out). Most banks know that businesses do not always receive money from sales straight away for example if your business sells electrical equipment to an electrical retailer then you may not get paid straight away when you deliver your goods yet you need the money to pay out on labour, machinery, equipment, distribution and so on (its costs) the firm can be allowed by its bank to overdraw its account (St-Onge, 2006).

Bank overdraft is the commonest form of business finance. It is used to provide working capital, funding the difference between the time when your business spends money and when it is paid by customers. The limit the bank is likely to allow you depend primarily on the amount owing to your business at the time and the value of work in progress. An overdraft facility is normally granted for a specific period after which it will be reviewed although it can be withdrawn if your bank loses confidence in you. Often the least expensive form of finance, it is not suited to financing any project, which is risky or not fully secured (Damsphere 2005).

A bank overdraft is a short term arrangement with no formal capital repayment timetable because any inflow of cash will automatically reduce or eliminate it in full. Bank overdrafts are acquired to cover temporary short term shortage of cash resources. A bank overdraft may be acquired for example; to finance ongoing working capital requirements or to support a start up business when it is still trying to find its feel (Munya, 2010).

2.2.1.8 Bank bills finance

Bank bills of exchange are drawn on acceptance - credit facilities granted by merchant banks to their customers, preferably against short term self liquidating transactions, which realize funds to meet the bills at maturity. They offer the business person a relatively cheap and reliable source of short term credit (Gove etal 2009).

Bank bill finance issued at a discount to its face value. For example, if a discounted bill has a face value of $1,000, it may be issued to the holder at $900. When it matures, the holder receives the full $1,000. A discounted bill, especially a short-term issue, often does not pay a coupon rather, the difference between the discount and the face value takes the place of the coupon. (Krugman, 2003). Commercial bill is a short term, negotiable, and self-liquidating instrument with low risk. It enhances the liability to make payment in a fixed date when goods are bought on credit; bill or exchange is a written instrument containing an unconditional order, signed by the maker, directing to pay a certain amount of money only to a particular person, or to the bearer of the instrument (Rama Rao 2008).

2.2.1.9 Ordinary share capital

This involves the use of common shares in order to finance the firm through issue of ordinary shares to the existing shareholders or the public. These shares stand for ownership in the company and holders of these shares have specific rights and privileges. It is long-term in nature because it has no maturity date, and, as such when one wants to leave the company the only option is to sell the shares to another party (Heather, 2003). Equity capital represents the ownership capital. The equity shareholders collectively own the company and enjoy all the rewards and the risks associated with the ownership. However, unlike the sole proprietor or the partner of the firm, the downside risk of the shareholders is limited to their capital contribution (Carley, 2002).

A share is a part ownership of a company. Shares relate to companies set up as private limited companies or public limited companies. There are many small firms who decide to set themselves up as private limited companies, if the business wants to expand, they can issue more shares but there are limitations on who they can sell shares to - any share issue has to have the full backing of the existing shareholders (Kauffmann,2004).

Equity in finance is an asset class consisting of equity securities in operating companies that are not publicly traded on a stock exchange. Equity investments are primarily made by private equity firms, venture capital firms, or angel investors, each with their own set of goals, preferences, and investment strategies, yet each providing working capital to a target company to nurture expansion, new product development, or restructuring of the company's operations, management, or ownership. In a typical leveraged buyout transaction, a private equity firm buys majority control of an existing or mature firm (Gibson, 2003).

2.2.1.10 Preference shares

Preference shares are securities that have similar features as those of ordinary share and debentures. Like debentures, these shares have a fixed dividend, preference shareholders don't share the residual earnings, they have claims on income and assets of the common shareholder, and they don't have voting rights. Like ordinary shares, none payment of dividends to preference shareholders doesn't force the company into insolvency, dividends are not deducted for tax purposes, and in some cases it has no maturity date (Loewen, 2008).

Preferred stock is a hybrid creation located between affixed creditor obligation and a common stock. Even though in the legal sense a preferred stock is considered as a part of the proprietary capital, management has generally come to consider it in the realm of creditor-type obligation. The sale of preferred stock as along term of financing is generally considered by management as an alternative to sale of debt issues and not to sale of common stock (Santow, 2001). A company can also raise funds through issue of preferential shares. Preferential shares include characteristics of a debenture and an ordinary share. The holders of the preference capital have preference over equity shareholders to the earnings of the firm in the form of dividends and on assets in the event of liquidation, but only after the claims of debenture holders. So, preference shareholders will have less risk than equity shareholders and more risk than rate of dividend, and do not carry voting rights unless the preference dividend is in arrears for a specified period of time (Kiviat, 2007).

2.2.1.11 Debentures

A debenture is a long-term promissory note for rising loan capital. The company promises to pay interest and principal as agreed an alternative is the bond, which, in most cases, is issued by public sector companies or government (Gompers, 2009). Some firms might be eligible to get funds from the government. This could be the local authority, the national government, the European Union, World Bank and many others. These grants are often linked to incentives to firms to set up in areas that are in need of economic development (Kasita 2010).

Another way of raising long-term funds is by issuing debenture, also called as bonds. A debenture is a marketable legal contract whereby the company promises to pay, whoever owns it, a specified rate of interest for a defined period of time and to repay the principal on the specific date of maturity. Debentures are usually secured by a charge on the immovable properties of the company. The interests of the debenture holders are protected by a trustee (generally bank or an insurance company or a firm of attorneys). The trustee is responsible for ensuring that the borrowing company fulfills the contractual obligations mentioned in the contract (Grabenwarter, 2005).

2.2.1.12 Retained earning

These are undistributed portions of the company that are regarded as a source of owned capital. The profits are converted into reserves and used for the financing requirements of the company. This process of re-investing a portion of the profits of the company is called pouching back of profits or internal financing (Jenkinson, 2007). Retained earnings also called organic growth is where they generates growth through the development and expansion of the business, these are profits made by the company through increasing sales, lowering costs and used or re-invested into the business (Bartlett,2009).

This is a source of finance that would only be available to a business that was already in existence. Profits from a business can be used by the owners for their own personal use or can be used to put back into the business. This is often called ploughing back the profits'. The owners of a business will have to decide what the best option for their particular business is. In the early stages of business growth, it may be necessary to put back a lot of the profits into the business. This finance can be used to buy new equipment and machinery as well as more stock or raw materials and hopefully make the business more efficient and profitable in the future (Ikoja-Odongo,2008).

2.3 Performance of SME's

According to Westover (2008), performance is taken to be the function of an organization's ability to meet its goals and objectives by exploiting the available resources in an efficient and effective way. John (2004) adds that performance entails effectiveness, which refers to the firm's ability to serve and produce what the market requires at a particular time and efficiency, which means meeting the objectives at the lowest possible cost with the highest possible benefits. In order to assess performance, managers use actions designed to generate sustainable long term improvements (Alexander and Christian (2008).

Campbell (2004) observed that organizational performance measures must focus attention on what makes, identifies and communicates the drivers of success, support organization learning and provide a basis for assessment and rewards. Kasekende (2001) found out that performance can be looked at in terms of competitive performance, financial performance, and quality of services, flexibility, resource utilization, and innovation.

Kuang (2008) found out that appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives. Keogh (2006) suggests that performance should be looked at in terms of economy, efficiency and effectiveness.

Economy and efficiency are usually measured in financial terms, volume of sales and productivity are used. Economy is defined as acquiring resources in appropriate quantities and at the least cost. Drucker (2004) defines efficiency as maximizing inputs for a required output. On the other hand, effectiveness is defined as the extent to which the defined task has been accomplished and is consistent with notions of non-financial accountability. Effectiveness may partly be measured in terms of quality of service, customer satisfaction and achievement of goals.

Ortiz-Molina (2007) in his study of medium seized manufacturing firms found that ownership and the size of the organization had an impact on the performance of the organization. He found out that as a firm increased in size in terms of level of stock, sales, level of assets and more skilled employee, economies of scale set in creating a positive impact on performance.

According to William (2000), the human capital asset accumulation has significant impact on the

Firm's ability to introduce new products and compete within a disparity of markets thus influencing the level of performance. John (2006) observed that availability and level of resources can be used to analyze the performance of an organization. He says that resources which may include assets, finances, employees' skills and organizational processes are a key indicator of the firm's performance over time. In agreement with this, Barney (2002) suggested that resources could be grouped into physical, human and capital resources, and that a firm can increase its performance only when other firms are unable to imitate its resources. William (2004) suggested that resources could be grouped as financial and non financial resources. Therefore a firm at any one time should ensure availability of goods and services in order to be successful.

According to Brown (1996), performance measures must focus attention on what makes, identifies and communicates the drives of success, support organization learning and provides a basis for assessment and rewards. On the other hand, West and Fair (1996), define performance as a function of an organization's ability to meet its goals and objectives by exploiting the available resources in an efficient and effective way.

Stoner (1989) adds that performance entrails effectiveness which refers to the firm's ability to serve and produce what the market requires at a particular time and efficiency, which means achieving the objectives at the lowest cost possible with highest possible benefits. Balunywa (1989) looked at performance in terms of competitive performance, financial performance, and quality of service, flexibility, resource utilization and innovation. Studies by Whyte (1991), show that performance can be measure d at both organization and individual levels and this measurement is sometimes referred to as performance appraisal. He urges that organizations have desired potentials in terms of capacity attraction, market share and financial strength and that performance is the difference between those potentials and what has been achieved.

For the purpose of this study, performance would be looked at in terms of financial strength of the enterprise. Stoner (1996) reveals that profitability has been the most widely used measure of financial performance. Profitability is the excess of income and expenditure which can be expressed by ratios of Gross profit margin, net profit and return on equity. A new paradigm of performance measure has been adopted by many SME‟s. This is based on identifying what the business does in terms of levels of processes and attaching Key performance indicators to those processes. The recording and analysis of the key performance indicators should significantly contribute to the achievement of business goals. Key performance indicators tell businesses how well they provide services,, how long they take to process customer requests, their product delivery performance and how much time they spend fixing mistakes. The traditional Statement of Financial Performance, Statement of Assets and Liabilities, management accounts are not enough to effectively manage businesses which are seeking to survive and add shareholder/ owner value. Management needs additional timely information, much of which is not traditional Financial Data, if they are going to effectively manage their businesses. The information must be able to be understood by all levels of staff so that they can continually measure their actual performance against the business's pre-determined targets

2.3.1 Liquidity as a measure of organizational performance

According to Maes et. al. (2000), liquidity relates to the settlement of short-term debts. A company will face financial problems if the funds are not available to pay off these debts. In the case of small scale enterprises struggling to survive, liquidity is a very important indicator of the state of financial health. As William (2004) puts it, liquidity is the degree to which debt obligations coming due to next 12 months can be paid from cash or assets that will be turned into

cash. Teszler (2001) concurred with William' Okurut and Bategeka (2006) finding that a firm that is liquid is a good indicator of good financial performance.

Frreira and Vilela (2004) established that the existence of growth opportunities in firms is an important factor that positively affects cash levels. Particularly, firms with more growth opportunities may also incur greater costs of financial distress because their value depends on their opportunities rather than on tangible assets or specific cash flows. Thus, this type of firm will keep higher cash levels to avoid costs of financial distress. It is therefore important that firms with good growth opportunities tend to keep higher cash holdings.

However, Kappel and Steiner (2004) observed that firm size is significant in determining its liquidity levels. The traditional models to determine the optimal liquidity demonstrate that there are economies of scale associated with the cash levels required to confront the normal transactions of the firm, so that larger firms can keep lower cash holdings. It is therefore important to consider that firm size is related to another set of factors that may influence liquidity levels such as the level of fixed costs and these costs are proportionately greater for SMEs.

2.3.2 Level of sales as a measure of performance

John and Tian (2000) considers sales volume as a good measure of performance of small scale enterprises. His findings were confirmed by (Kasekende, 2001) who found out that when sales increase, revenue turnover of the firm is high, it means the firm is expanding its level of output an indicator of better performance. Boles, et al (2001), observed that a firm can register its better performance if the level of sales is increasing over time to meet the predicted and targeted sales. They further found out that if a firm's sales volume is increasing, it means that the productive capacity of the firm is expanding and eventually a firm begins to enjoy economies of scale that enables it to produce at reduced costs, sales cheaply and becomes competitive in the industry.

According to Bagozzi (1999), a firm is said to be performing better if its sales volume is increasing over time. He further observed that in a situation where there is efficient management of the firm, if its sales volume is increasing, it means revenues are also increasing and this enables a firm to be liquid and this reduces on the capacity of the firm to borrow in order to meet its debt obligations. However, Campbell (2004) in his study did not find a correlation between costs of borrowing and performance of small scale enterprises. This study will therefore try to find out this claim by either confirming it or rejecting it.

2.3.3 Level of asset base as a measure of performance

One of the successes of any business venture is the level of asset base which a firm is accumulating over time. John and Tian (2000) found out that the expansion of a firm is measured in terms of the rate at which its assets are growing. John (2006) observed that as long as the physical assets of the organization are growing over time, it is an indicator that is growing to enjoy the economies of scale and becomes competitive in the market.

Campbell (2004) in his study confirmed Rumelt's observation that it is the increase in the asset base that indicates that the firm's performance is effective and efficient. He further found out that

a firm with strong asset base is capable of accessing loans from financial institutions cheaply since such assets can act as collateral security. However, (William, 2004) found a weak correlation between borrowing and increase in asset base by small scale business enterprises. This is because small scale enterprises, always access very little funds from the financial institutions that are accessed at very high cost yet the returns to these enterprises are low and thus not able to increase their investment to increase on the asset base. However, William mentions a weak correlation between borrowing and asset base but did not tell the direction of that relationship. This study therefore will explore this to find out the direction of relationship.

2.4 Relationship between access to finance and performance of SMEs.

There is a strong relationship between access to finance and performance of SMEs. The inaccessibility of credit and capital is a major impediment to the development of SMEs, particularly because it prevents them from acquiring the new technology that would make them more productive and more competitive. Access to finance will provide assistance to SMEs in the area of accounting, financial management and entrepreneurship that complies with national accounting requirements and/or best practices, this will improve the performance of SMES (UNCTAD 2002). Entrepreneurs and small business owners often turn to access to finance in order to establish or expand their business ventures. Business enterprises that choose this method of securing funding, which is commonly called debt financing, need to be aware of all components of those loan agreements, including the interest.

Many studies (Mugume 2001; MFPED; 2000; Gauthier 2001, Kappel, and Steiner 2004) have linked the access to finance to performance. They assert that the access to finance which is a component of operating expenses, profit motive, access to finance and inflation rate in the country significantly affects the performance of small scale enterprises. This is measured in terms of level of output, level of revenue and level of employment depending on how the borrowed money is put to use.

According to Kappel and Steiner (2004), the access to finance is not a problem as long as the borrowed money is invested in ventures with high rate of return. They however found out that for this to be achieved, a big amount of capital should be accessed by the borrowers in order for them to increase their levels of investment so as to enjoy economies of scale. Their finding was confirmed by (William, 2006) who found out that loan performance is influenced by the loan size and loan repayment period. According to him, the bigger the amount of borrowed money with longer repayment period the better will be the liquid of the enterprise as well as high levels of profitability that will be achieved after meeting the obligation of loan repayment.

According to (MFPED, 2000) a high interest rate regime with shorter loan repayment period undermines the financial performance of small scale enterprises through increased probability of default and non-performing assets that affect liquidity. It further threatens the financial long term solvency of private sector businesses and especially of local origin, mainly small scale enterprises. Moreover as a result of compounding, a continually rising interest rate increases loan repayment obligation over time and constrains small scale enterprises operations. The high cost of credit and the small loans available to small scale enterprises not only affect private sector business through increased costs of operation, but affects production performance and this has negative effect on liquidity and profitability of the enterprises (Wright et al, 2000).

However, Keogh (2006) has a different view. According to him, interest rate induces commitment to the productive use of the loan so as to repay. This commitment in turn leads to improved financial performance of the organizations. In support of this, empirical literature Youssoufou (2007) revealed that subsidized credit in Burkina Faso constantly encouraged borrowers to engage in less productive activities which in turn led to relatively poor financial performance of their firms. These divergence views identified in the literature will be the basis of this study to bring about the insight of the true situation.

2.5 Conclusion

In conclusion, despite the role played by SMEs entrepreneurs in the development of the country, literature reveals that they are constantly confronted by social and economic constrains that make it difficult for them to access finance necessary for carrying out investments or expansion plans. There appears to be no breakthrough to these constrains which continue to cripple entrepreneurship behaviours of SMEs (Ocici, 2003).

CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Introduction

This chapter describes the methodology that was employed in conducting the study. This chapter focuses on the description of the procedures that were employed in the study. Mugenda and Mugenda, (1999) state that this chapter should specify the research design, the study population or the area in which the study were conducted, the sampling design, the sample size, data sources, data collection instruments and the validity and reliability of the data collection instruments.

3.1 Research design

Research design provides the glue that holds the research project together. A design used to structure the research, to show how all of the major parts of the research project - the samples or groups, measures, treatments or programs, and methods of assignment - work together to try to address the central research questions (William M.K. Trochim 2006). It can also be defined as the master plan specifying the methods and procedures for collecting and analyzing the needed information. In order to achieve this, a cross sectional survey study was used, this is a combination of both descriptive and analytical methods on the terms of financial access and performance. The performances of small and medium enterprise were analyzed over a period of 4 years in response to the financial access.

3.2 Study population

Allan & Emma (2003) defined population as basically, the universe of units from which the sample is to be selected. „Units' is employed because it is not necessarily people alone who are sampled. It can also be defined as the entire group of people, events, or things of interest that the researcher wishes to investigate .The study population were 6000 registered and licensed small scale enterprises (SSEs) and 30 financial institutions in Mbarara municipality, according to Municipality records (2008). The targeted population of a group of 50 small and medium enterprises from supermarkets, fast foods, bakery and small Rolex kiosk.

3.3 Sample Size

Sekeran (2003) describes sample as a subset of the population. It comprises of some members selected from i.e. some of the elements of the population form the sample. Also is defined as a segment of the population selected for investigation. Within the population a sample 50 enterprise were selected as a representative of the whole population. In addition of 50 employees of financial institutions were interviewed to give their views on the subject matter. This helped the researcher to get an administrative opinion on the issues raised in this study.

3.4 Sampling method and design

According to Sekaran (2003), sampling is the process of choosing the research units of the target population, which are to be included in the study. The samples to be used in the study were selected using purposive sampling which is a function of non- probability sampling. Under purposive sampling technique, the researcher purposely chose who, in his opinion was thought to be relevant to the research topic. The simple random sampling method was used to select the sample because it was regarded as most appropriate. In this study, a sample of 50 enterprises was used as a representative of the whole population of small and medium enterprise that access finance from financial institution.

3.5 Measurement of variables

The two variables in this respect are financial access and performance of small and medium enterprises. The former is the independent variable while the latter is the dependant variable. The independent variable measured parameters such as loan size, loan period, interest rate and processing period among others. The dependent variable, performance measured variables such as changes in level of assets, level of sales, profitability and number of employees.

3.5 Source of Data

3.5.1 Primary Data

According to Roston (2001), primary data is that kind of data that has been gathered for the first time, it has never been reported anywhere. Primary data were obtained through the use of self-administered questionnaire to respondents following systematic and established academic procedures, as suggested by Nunnally and Bernstein (1994). The questionnaires were used for the collection of data from Mbarara municipality Small and Medium Enterprises.

3.5.2 Secondary Data

Roston (2001) defines secondary data as that kind of data that is available, already reported by some other scholars. Secondary data was used to support the empirical findings of the study. These other sources of data (Literature review) were Marjory used to back up the arguments and findings in chapter four and five. Secondary data were obtained from existing literature in audited and registered annual reports of the Mbarara municipality small and medium enterprises to determine the various ratios. and journal articles, previous research paper findings, journal articles, Text books, News papers, reports and conference proceedings and reports on small and medium enterprises publications and websites. The reason for this was to make comparison of secondary data with primary data.

3.6 Data collection method

The study made use of both primary and secondary data and this was done through utilization of quantitative methods of data collection. In quantitative research, the design were developed at the beginning of the research and deviation of any kind were permitted as such deviation is thought to cause problems; communication and interaction objectively define the fashion, data analysis took place only when the process of data collection was completed, the data collection methods was standardized and fixed leaving no options for correction and adjustment.

Key Informant Interviews

Face to face interviews were carried out with the top management and clients to cross check the response from the questionnaire. These were designed in a way that more specific and truthful answers were got. These helped to capture information, not provided by the questionnaires. The method used Interview guide to capture the respondents‟ views. This method was preferred because of its flexibility and ability to provide new ideas on the subject (Kowhai, 1990).

Documentary Analysis

Secondarily data from materials such as textbooks, newspapers, journals and internet was used to back up primary information and relate the findings to other approaches already in existence. The method used document checklists and guides to get views from other writers which were instrumental especially in comparison analysis and literature review.

3.7 Data collection instrument

According to Sarantakos (1993), the successful completion of a sampling procedure connects the research with the respondent and specifies the kind and number of respondents who were involved. The investigator knows at this stage not only what was studied, but also who to approach for the required information. The information was available; provided that the right 'connection' between the researcher and the respondents is made. This connection is made through the methods of data collection.

Primary data were obtained from respondents by the researcher through interviews, administration of questionnaires. Secondary data were obtained from documented statements. Interviews were also conducted among the selected financial institutions while the questionnaires addressed to the enterprises. As regards secondary data, annual reports and other published material were used. These include loan manual, financial reports and any other documents that were seen relevant to the study.

According to Sotirios Sarantakos (2005), a questionnaire is a method of survey data collection in which information was gathered through oral or written questionnaires. Oral questioning is known as interviewing; written questioning was accomplished through questionnaires which were administered to the respondents by mail or handed to them personally by the researcher. The study used a questionnaire to collect data during the study. Each Mbarara Municipality Small and Medium Enterprises received a questionnaire that was answered by an official of that particular Mbarara municipality small and medium enterprises .This instrument was appropriate since most respondents were preferred to respond to them along with their daily routines of work. Self-administered questionnaire were used for data collection. The questionnaire was designed according to the objectives of the study with mostly both open ended and close-ended questions using a 5 point scale ranging from 1- Strongly disagree to 5- Strongly agree. The questionnaire was in English

Structured questionnaires were used in the collection of primary data and this was either self administered or face to face interview with the respondent. For self-administered questionnaires, the researcher further interviewed the respondents on a few responses that required further clarifications.

3.8 Data collection Procedure

Data collection involved a self-administered questionnaire. The researcher dropped the questionnaires physically at the respondents‟ places of work. The researchers left the questionnaires with the respondents and picked them up later. Each questionnaire were coded and only the researcher knew which person to be responded. The coding technique was only used for the purpose of matching returned, completed questionnaires with those delivered to the respondents.

3.9 Data processing and analysis

Data analysis is the science of examining raw data with the purpose of drawing conclusions about that information. The collected data were analyzed using quantitative analysis which majorly involved six major activities namely, data preparation, counting, grouping, and relating, predicting and statistical testing. Data preparation involved all forms of manipulations that were necessary for preparing data for further processing e.g. coding, categorizing answers to open-ended questions, editing and checking as well as preparation of tables; counting included the mechanical task of registering the occurrence and frequency of the occurrence of certain answers or research items; grouping and presentation involved ordering of similar items into groups and this was resulted in distribution of data presented in the form of tables and graphs; relating involved cross-tabulation and statistical tests to explain the occurrence and strength of relationships; predicting is a process of extrapolating trends identified in the study into the future and this statistical method helped the researcher complete this task and finally statistical testing; this refers to the stage where test of significance, inference, hypotheses and correlation are employed during the process of analysis.

3.10 Problems encountered during the study

The researcher met a number of problems while collecting data. These problems included financial constraints, biased clients, unfavorable situation, lack of adequate time and respondent's failure to understand the questionnaires. The facts that uniform questionnaires were given to all the respondents irrespective of the level of education; there was a problem of misinterpretation of the questionnaires. However a number of strategies were put into place to solve the above problem. Simple and clear question were used to avoid misinterpretation

CHAPTER FOUR

PRESENTATION AND INTERPRETATION OF FINDINGS

4.0 Introduction

This chapter contains presentation and interpretation of the study findings. The aim of this study was to evaluate the effect of access to finance on performance of small and medium enterprise. The chapter contains findings on characteristics of respondents and these findings are presented and interpreted in line with the study objectives and research questions.

4.1 Demographic characteristics of the respondents

The data in this section is presented using frequency tables that show general characteristics of the sample including the age, sex, marital status, the education levels, businesses undertaken by the respondents, the period for which the respondents have been in business and the source of funds for their businesses. The response rate was 100% because the questionnaire was administered by the researcher herself and the exercise took enough time that enabled the researcher made come back to those who could not be traced for the first time. This was done to ensure that all the targeted respondents were utilized for reliability and valid data.

4.1.1 Age of respondents

The study tried to find out the age distribution of the respondents. This was intended to find out whether the sample was fairly selected in terms of age category. The findings were presented in table below (1)

Table 1: Age distribution among the respondents

Age bracket	Frequency	Percentage
Below 20 years	00	00
21 – 30 years	30	60%
31 – 40 years	13	26%
Above 40 years	7	14%
Total	**50**	**100 %**

Source: Primary Data 2014

Table 1 indicates that 60% of respondents were between 21- 30 years. This shows that most small enterprises are established by young individuals who have cleared studies but due to high unemployment end up with small enterprises. Both 26 % and 14% represent business enterprises by older entrepreneurs between 31 to above 40. This group comprise of enterprises that have survived for more than 3 years.

4.1.2 Sex of respondents

Sex was one of the variables the study analyzed. This was intended to find out whether the sample selected was balanced in terms of gender. The results are presented in table 2.

Table 2: Gender of respondents

Gender	Number	Percentage
Male	15	30 %
Female	35	70 %
Total	**50**	**100 %**

Source: primary Data 2014

Table 2 reflects that 30% of the genders comprised of males while 70% comprised of women. This indicates that most of the small businesses are owned by women who represent a larger percentage. This is because most of these women are tired of sitting at home as house wives thus most of them start business as means of being productive and also independent.

4.1.3 Marital status

Marital status was also taken to be one of the variables analyzed. The intention was to find out which category dominates the small scale business sector. The elicited response was presented in

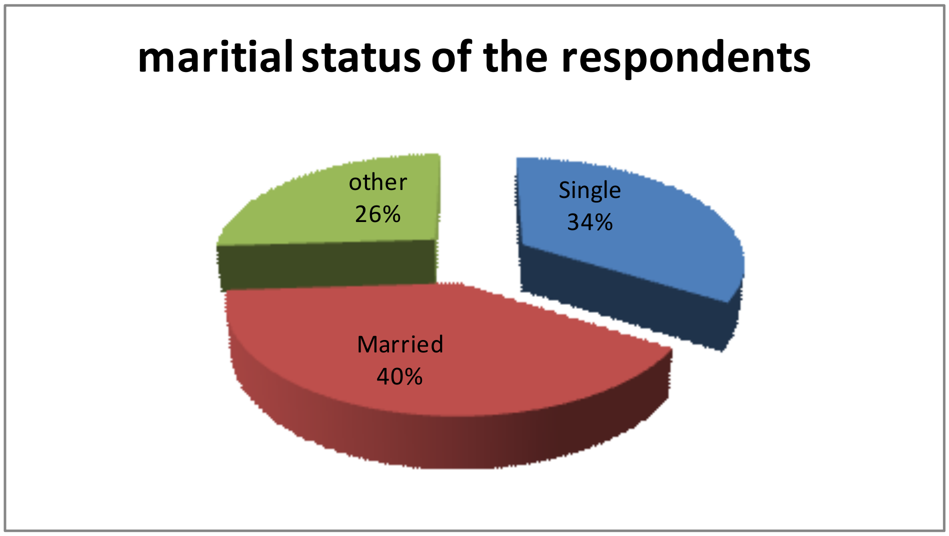
Table 3. Marital status of respondents

Marital status	Number	Percentage
Single	**17**	**34%**
Married	**20**	**40%**
other	**13**	**26 %**
Total	**50**	**100**

Source: Primary Data 2014

Table 3 shows that majority of the respondents (40%) were married, followed by those who were single at 34% and the least (26%) were other. This analysis shows that it is married people who have more financial obligation that could enable them see the need for undertaking business ventures.

Figure 1: Graph of the martial of the respondents



Source: Primary Data 2014

Table 3 indicates that 41% of the respondents were married, 33% were single and 26% fell under other who comprised of those who did not wish to disclose their marital status.

4.1.4 Education levels of business owners

This study considered education level as a variable to analyze. The intention was to find out the education level that dominates the small and medium enterprises. The results are presented in table 4.

Table 4: Education levels of respondents

Level of education	Frequency	Percent
No education	5	10
Primary	10	20
Secondary	13	26
Diploma	14	28
Degree	08	16
Total	**50**	**100**

Source: Primary data 2014

Table 4 shows that the majority of respondents 28% had completed diploma education, followed by those who had completed secondary education at 26% and 10% did not have any formal education. However, the above observation shows that businesses are undertaken by all categories irrespective of the level of education.

4.2 Business profile:

4.2.1 Number of employees

Table 5: Number of employees

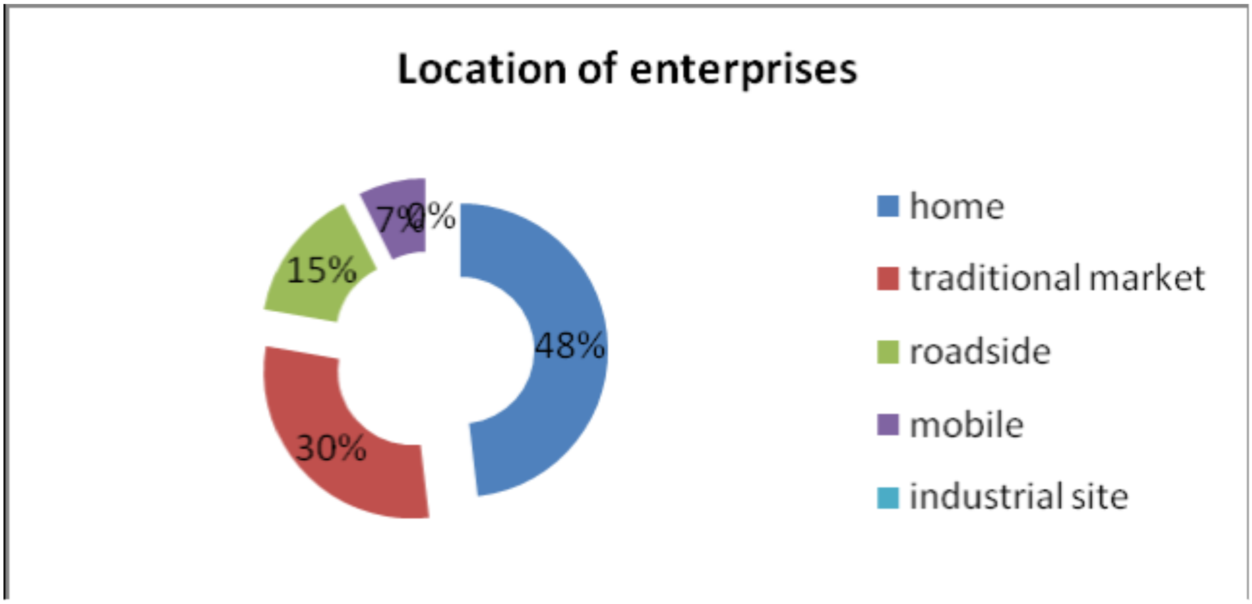
Employees	Number	Percentage
0 – 5	31	62 %
5 – 10	13	26 %
10 – 15	6	12%
15 and above	00	0 %
Total	**50**	**100 %**

Source : Primary Data 2014

Table 5 shows that 62 % small and medium enterprises have less than 5 employees 26 % have more than 5 employees and only 12 % have 10 to 15 employees.

4.2.2 Location of enterprises

Figure 2 : Graph pie chart showing the locations of enterprises



Source: Primary Data 2014

The findings from the survey revealed that the type of business, capital and labour requirements dictate the location of the enterprise. It was found out that most of the entrepreneurs preferred to establish the enterprises near their homes because of the needed flexibility in running a business and a family, besides cheap labour and avoiding other expenses such as rent. Some of the entrepreneurs preferred traditional market because of the ready available customers.

4.2.3 Duration of enterprise

Respondents were further asked to reveal the time period they have spent in business. This was Intended to give a clear picture on whether there was business progress or not. The results were Presented on table 6.

Table 6: Duration of enterprise

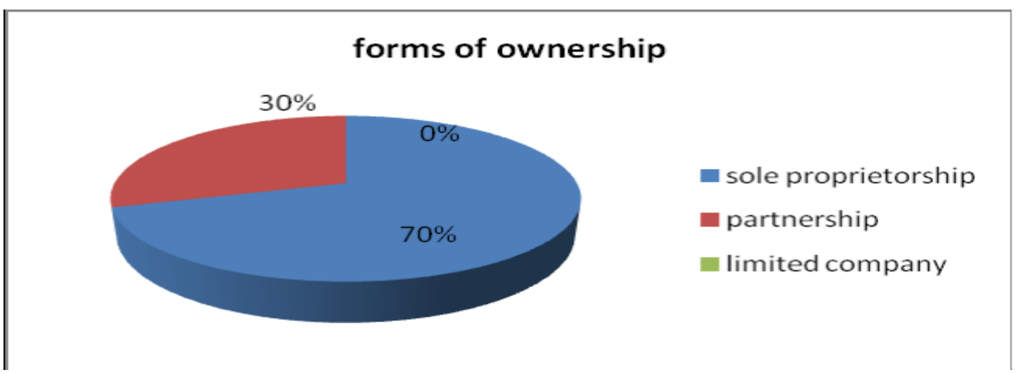
Duration	Frequency	Percentage
Below 2 years	26	52 %
2 – 4 years	16	32 %
4 years and above	08	16 %
Total	**50**	**100 %**

Source: primary data 2014

It is evident from the above table that, most of the enterprises were recently started that is 52%. This shows that the rate of starting business is high. The rest comprises of 32 % and 15 %, this are enterprises that have been established for more than two years. It is evident that as more years go by less enterprise is able to survive.

4.2.4 Ownership of the enterprises

Figure 3: Shows the pie chart showing forms of ownership



Majority of the businesses under study comprised of sole proprietorships which represented 70% while partnerships were at 30%. None of the businesses were registered as limited companies.

4.3 source of finance for the enterprises

4.3.1 Preferred financial institution

Table 7: Preferred financial institution

Financial institution	**Frequency**	**Percentage**
Micro finance institution	10	20 %
Banks	07	14 %
Government	00	00 %
SACCOS	5	10 %
MERRY GO ROUNDS	28	56 %
Total	**50**	**100**

Source: Primary Data 2014

It is evident that most entrepreneurs preferred merry go round which is 56% and also micro finance institution which is 20%. Interest rates in the MFI are much higher than those offered by commercial banks, although the conditions of payment are more appealing to small borrowers. The strength of MFIs is that they served the rural areas at low costs. Their service delivery is flexible, which makes it easy for weak SMEs to access financial services from them. Their weaknesses, though, lie in their weak operational and management information systems, poor internal controls, limited access to technical assistance and dependence on donor funding. While the banks are definitely more qualified to lend to SMEs, it is a widely held view that banks, particularly commercial banks, have difficulties in financing start-ups and also they have high interest rates.

4.3.2 Response on loan application

Table 8: Response on loan application

Loan application	**number**	**Percentage**
Yes	30	60 %
No	20	40%
Total	**50**	**100 %**

Source: Primary Data 2014

Most of the respondents have applied for loans 60% this is because loans can be used to finance both the working capital and fixed asset needs of the business. While 40% have not this is because those SME borrowers who have negative feelings about their banks are generally reluctant to seek loan. It was established that SMEs want favorable pricing of credit so that they are able to repay their loans without difficulty.

4.3.3 Purpose of the loan application

Table 8: Purpose of the loan application

Purpose	Frequency	Percentage
Business start up	35	70 %
Business expansion	15	30 %
Total	**50**	**100 %**

Source: Primary Data 2014

70% of the businesses had applied for the loan to finance their start up operations while 30% had applied for financing for their business expansion. This means that most entrepreneurs have inadequate capital to start up their enterprises thus the demand for finance is high.

4.3.4 Successful loan application:

Table 9: Successful loan application

Source	Number	Percentage
Venture capital	08	16 %
Donations	13	26 %
Personal savings	29	58 %
Total	**50**	**100 %**

Source: Primary Data 2014

Prior to their loan applications, most of the businesses 58% relied on personal savings for their business financing. Only 16% used venture capital as a source of financing.

4.3.5 Financial assistance is important for growth:

Table 10: Financial assistance is important for growth

Financial assistance is important for growth	**frequency**	**Percentage**
True	40	80 %
False	10	20 %
Total	**50**	**100 %**

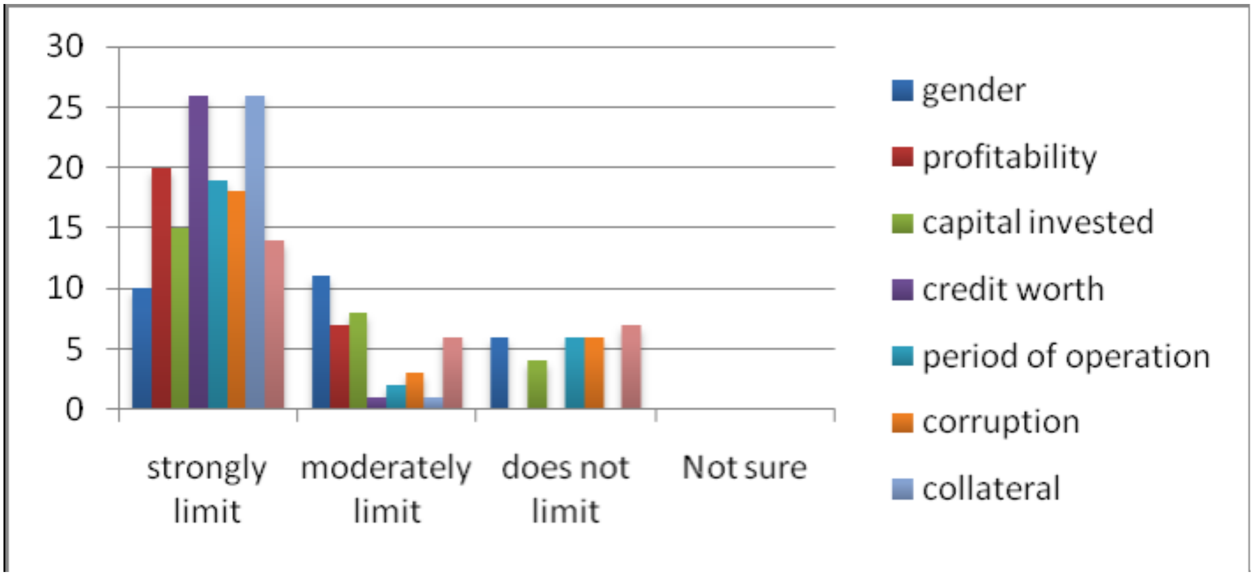
Source: Primary Data 2014

While 80% of the respondents agreed that financial assistance from financial institutions is an important element for growth and sustainability of their ventures, 20% still had their doubts

4.4 Fund accessibility:

4.4.1 Aspects limiting fund accessibility

Graph 4



Source: Primary Data 2014

Collateral was viewed as the most prone factor to the access of funds by SMEs followed by credit worth of an entity. This was followed closely by profitability of the entity and period of operation, this is ability of the entity to provide collateral incase it does not settle the loan repayment. Gender and capital invested were the least limits.

4.4.2 Conditions to which SMEs are viewed as risky ventures:

a) Uncertain competitive advantage

Table 11: Conditions viewed as risky ventures

Response	Number	Percentage
Strongly agree	20	40%
Agree	11	22 %
Neutral	00	0 %
Disagree	15	30 %

Strongly disagree	4	8 %
Total	**50**	**100 %**

Source: Primary Data 2014

Table 12 above indicates that 40% and 22% of the respondents strongly agreed and agreed respectively that that uncertain competitive advantage made financial institutions view SMEs as risky ventures, then lastly 8% who strongly disagreed.30% totally disagreed.

b) Less equipped in terms of human and capital resources:
Table 12: Less equipped in terms of human and capital resources

Response	**Number**	**Percentage**
Strongly agree	3	6 %
Agree	07	14 %
Neutral	00	0 %
Disagree	28	56 %
Strongly disagree	12	24 %
Total	**50**	**100 %**

Source: Primary Data 2014

From the table 13 above, 6% and 14% of the respondents strongly agreed and agreed respectively that they the respondents agreed that SMEs are less equipped in terms of human and capital resources, 56% disagreed on this being a hindrance to finance. They argued that it is only 14 % through access of funds that SMEs can equip themselves with standard human and capital resource.

c) Inadequate accounting systems:

Table 13: Inadequate accounting systems

Response	**Number**	**Percentage**
Strongly agree	16	32 %
Agree	20	40 %
Neutral	00	00%
Disagree	07	14 %
Strongly disagree	07	14 %
Total	**50**	**100 %**

Source: Primary Data 2014

From the above table, findings show that 40% and 32% respondents agree and strongly agree that the most of SMEs do not prepare accounts and lack ability to internally process information relating to their projects. Inadequate accounting systems were found to be a major problem as to why SMEs are viewed as risky venture, while the number of 14% and 14% respondents distrongly agree and disagree.

d) Uncertain repayment capacity:

Table 14: Uncertain repayment capacity

Response	**Number**	**Percentage**
Strongly agree	18	36 %
Agree	13	26 %
Neutral	00	0 %
Disagree	11	22 %
Strongly disagree	08	16 %

Total	**50**	**100 %**

Source: Primary Data 2014

Table 15 indicates that 26% and 36% of the respondents agreed and strongly agreed respectively that the view that uncertain payment capacity by SMEs makes financial institutions view them as risky ventures but 22% disagree and 16% of the respondents strongly disagree. Most of the respondent's argued that banks see SMEs lending as a high-risk activity, given the larger proportion of business failures in this segment. As a result, they will inevitably charge a higher risk premium which makes repayment to become hard.

4.4.3 Perception on financial institutions:

a) Effort to reach SMEs by financial institution

Table 15: effort to reach SMEs by financial institution

Response	Number	Percentage
Strongly agree	03	6 %
Agree	07	14 %
Neutral	02	4 %
Disagree	26	52 %
Strongly disagree	12	24 %
Total	**50**	**100**

Source: Primary Data 2014

From table 8 above, 6% and 14% of the respondents agreed and strongly agreed respectively that if a there Majority of the respondents feel that financial institutions have not done enough to reach SMEs while 24% strongly disagree, 52% disagree a argue that much has been done. 4% are neutral about the issue.

b) Awareness of financial institution

Table 16: Awareness of financial institution

Response	**Number**	**Percentage**
Strongly agree	13	26%
Agree	22	44%
Neutral	00	0%
Disagree	05	10%
Strongly disagree	10	20%
Total	**50**	**100**

Source: Primary Data 2014.

From table 17 above, 26% and 44% of the respondents agreed and strongly agreed respectively that if a there (26%+44%) 70% agree that SMEs have great awareness of financial assistance from financial institutions while 10% disagree and 20% strongly disagree.

c) Financial institutions only target large firms
Table 17: Financial institutions only target large firms

Response	Number	Percentage
Strongly agree	26	52 %
Agree	11	22 %
Neutral	00	0 %
Disagree	09	18 %
Strongly disagree	04	8 %
Total	**50**	**100 %**

Source: Primary Data 2014

Findings as per table 10 reveals that 52% of the respondents agreed that the financial institutions mainly targeted large firms, 22% agree, 18% were in disagreement, while 8% of the respondents strongly disagreed. A majority (52%) felt that financial institutions mainly targeted large firms while18% disagreed. It was established that financial institutions prefer large firms because SMEs are more vulnerable to market change and often have inadequate management capabilities and low turnovers.

d) Financial institutions are profit making:
Table 18: Financial institutions are profit making

Response	Number	Percentage
Strongly agree	22	44 %
Agree	13	26 %
Neutral	07	14 %
Disagree	05	10 %
Strongly disagree	03	6 %
Total	**50**	**100 %**

Source: Primary Data 2014

Table 12 reveals that 44% of the respondents strongly agreed, 26% agreed, 14% were in neutral while 10% disagreed, 6% While 44% of the respondents agreed financial institutions only aim at making profits from their services, 10% disagreed. 14% were indifferent.

e) Financial institutions terms and conditions could change with changes in business environment:

Table 19: financial institutions terms and conditions could change with changes in business environment

Response	**Number**	**Percentage**
Strongly agree	05	10 %
Agree	09	18 %
Neutral	03	6 %
Disagree	13	26 %
Strongly disagree	20	40 %
Total	**50**	**100 %**

Source: Primary Data 2014

Findings from table 19 revealed that 10% of the respondents strongly agreed, 18%agree, 6% were neutral, and 26% were disagree, while 40% strongly disagreed that indicates that most respondents ,that financial institution could change their terms and conditions. Most of the argued that banks do not want to take risks and this terms and conditions are developed for this purpose. While 18 % of the respondents agreed, stating that banks had in some ways changed their feel that it is now less easy to access services from banks than it was a few years ago.

4.5 Performance of SMEs

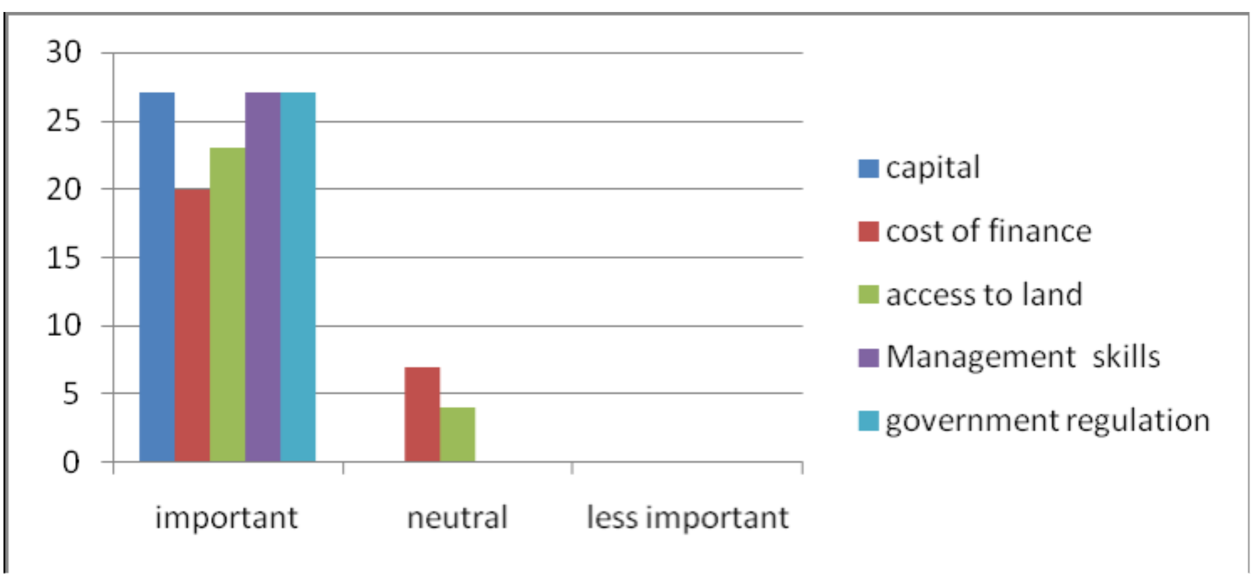
4.5.1 Factors that have direct effect on performance:

Table 20: factors that have direct effect on performance

Factors	important	neutral	Less important
Capital	27	0	0
Cost of finance	20	7	0
Access to land	23	4	0
Management skills	27	0	0
Government regulation	27	0	0

Source: Primary Data 2014

Figure 4: A bar graph shows the factors that have direct effect on performance



From the table 20 and the bar graph above, it indicates that capital has major influence on the performance of a SME. It was also found that SMEs with strong internal management systems and good managerial expertise have a higher likelihood of performing better than those without such systems and skills. The government should provide a number of initiatives, policies and programmes to be put in place to enhance the development of enterprises in Uganda.

4.5.2 Rating of SMEs using performance indicators

a) Production volume

Table 21: Production volume

Indicator	Time	High	Average	Low
Production volume	Start up	7	10	12
	present	10	10	7

Source: Primary Data

Table 22 indicates that most enterprises 12 respondents said that they started with low production volume, this is because resources were scare and most entrepreneurs lacked experience in the investment. Presently most of them are producing high volume this because of the retained earnings which have plough back to the business and also they have acquired modern equipments which helps them to enjoy economies of scale. While others are still producing low, in most case these enterprises are still lacking finance.

b) Employment level

Table 22: Employment level

Indicator	Time	High	Average	Low
Employment level	Start up	2	8	17
	present	8	7	12

Source: Primary Data 2014

Table 23 indicates that most enterprises 17 respondents said that they started with low employment level this is because most of them could not afford to hire due to the small nature of the business. Most of them used family labour as a main source of labour, leaving out potential worker thus low level of employment. Presently most businesses have improved from 8 respondents to 12 respondents in terms of low employment level due to accumulated asset and retained earnings. This indicates that SMEs given a chance can grow if their given flexible loans which suite their needs.

c) Sales volume

Table 24: Sales volume

Indicator	**Time**	**High**	**Average**	**Low**
Sales volume	Start up	0	7	20
	Present	5	12	10

Source: Primary Data 2014

Table 24 indicates that most business 20 respondents said that at start up had low sales volume this because of the stiff competition and also lack of awareness from customer. Presently sales volume is still average, most entrepreneurs argued that lack of finance has limited them to certain brands which carter for a certain group leaving out other potential customer.

d) Profitability level

Table 25: Profitability level

Indicator	Time	High	Average	Low
Profitability level	Start up	0	8	19
	present	2	11	14

Source: Primary Data 2014

From table 25 profitability level of SMEs at start up was very low about 19 of the respondents confirmed this. They said that a portion of what they made had to pay taxes and also licenses for the business. This greatly reduced their profits to average and low. Presently the level of low profitability has reduced to 14 respondents and only 11 respondents said that their making high profits; this is due to low scale of operation by the entrepreneurs which is limited by finance.

4.6 Relationship between access to finance and performance of small and medium enterprises

Correlations		Access to finance	Performance of SMEs
Access to finance	Pearson Correlation	1	.386(*)
	Sig. (2-tailed)	.	.047
	N	27	27
Performance of SMEs	Pearson Correlation	.386(*)	1
	Sig. (2-tailed)	.047	.
	N	27	27

Correlation is significant at the 0.05 level (2-tailed). Source: statistical package for social scientist (SPSS) output Pearson correlation of access to finance and performance R = 0.386 Result revealed the significance positive responses relation between access to finance and performance of SMEs that is 0.386.This shows moderate relationship between access to finance and performance of SMEs. This reveals that if access to finance is adequate in small and medium enterprises there can be an increase in the performance of SMEs.

CHAPTER FIVE:

SUMMARYOF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

The study investigated and analyzed the relationship between access to finance and performance of small and medium enterprises in Mbarara Municipality. This is based on the first four chapters. The dependent variable of the study was performance of small and medium enterprises and the independent variable was access to finance. This chapter consists of four sections, first presenting the summary of findings, secondly conclusion, thirdly presenting the recommendations and lastly presenting the areas of further research.

5.1 Summary of findings

5.1.1 Factors limiting access of finances by SMEs

The study showed that 58% of the respondents had applied for the loan, while only 32% did not apply for the loan. This shows that majority of the respondents had access to financial institutions and their services. Most of the loans applied for were for startup purposes as represented by 70% of the respondents. On the contrary, out of those who had applied for a loan, only 30% of the respondents were successful while 40% of the respondents were not successful. Most of the respondents cited the following as hindrances to their access of funds:

a) High interest rate

b) High collateral requirements:

c) Loan application process was tedious

d) Literacy concerning loan application

Majority of the respondents felt that they must be stable to be able to apply for the loan. They strongly felt that when the business is not performing, they will not be in a position to repay back the loan. They disclosed that in most of the financial institutions, business stability was a requirement. Findings revealed that interest rate that is met by small and medium enterprises while accessing loans was found to be extremely high although it has enabled them remaining liquid due to continuous borrowing. This observation is supported by Omeke (2007) who found out that interest rate is normally assumed to be the major cost met by the borrowers because it is charged as compounded interest rate.

The loan application process is tedious and one has to have a security in order to be able to access the loan. This brings about the issue of collateral. Majority of the businesses (85%) had been in operation for less than five years and most of them had not accumulated enough profits or assets which could be used as security for the loans. This meant that most of these entities could not be able to apply for subsequent loans due to their repayment incapacity.

Some of the respondents felt that they do not have enough information about the loan application. The study showed that 80% of the respondents felt that financial institutions have not done enough to reach SMEs. They said that they need banks to educate them on the issues of the loan application and all that they need to consider to access credit facilities.

Furthermore, interest rate is also an issue that needs to be brought to book. This is because some of the respondents felt that the rates make them to shy away from the credit facilities since they have to repay heavily on the small sum of money that they borrow. This was attributed by the lack of adequate information and know-how about finance policies of these institutions. The finding is also in support of Prevost et al (2008) who found out that a large portion of MFIs' funds are sourced from commercial banks and the cost of these funds is the market interest rate which is always high. As a result such cost is transferred to borrowers plus their profit margin thus making interest rates high. This is also in support of Najjemba (2004) who observed that MFIs charge higher interest rates than the Development and Commercial banks. The finding is also in support of Omeke (2005) who found out that interest rates charged by MFIs are high and unfavouarable to small scale firms.

The study showed that 62% of the respondents were in the view that uncertain payment capacity by SMEs makes financial institutions view them as risky ventures. Some SMEs require quite a large amount of capital for start up or even for acquisition of equipment. Inadequate accounting systems also hinder SMEs from qualifying for fund applications.

The study shows that 40% of the respondents agreed with this as being a problem to loan applicants. Financial institutions do not want to risk loosing their money due to poor record keeping by SMEs. A majority felt that financial institutions mainly targeted large firms since they have consistent profits and also have assets with which they can secure their loans with.

5.1.2 Performance of small and medium enterprises

The study showed that SMEs with strong internal management systems, capital and good managerial expertise have a higher likelihood of performing better than those without such systems and skills. The government should increase the number of initiatives, policies and programmes to be put in place to enhance the performance of enterprises in Uganda. This finding was in support of Campbell (2004) who did not find a correlation between costs of borrowing and performance of small and medium enterprises. The findings were also in support of (William, 2004) who found a weak correlation between borrowing and increase in asset base by small scale business enterprises. This is because small and medium enterprises, always access very little funds from the financial institutions that are accessed at very high cost yet the returns to these enterprises are low and thus not able to increase their investment to increase on the asset base. The contribution of this study was determining the direction of the relationship between the cost of borrowing and the increase in asset base which was not mentioned in the literature reviewed.

5.1.3 Relationship between access to finance and performance of small and medium enterprises

The researcher used Pearson"s correlation coefficient to find the relationship between access and performance of small and medium enterprises and the finding revealed a positive relationship 0.368. This shows strong relationship between access to finance and performance of SMEs. The finding was also in support of (Wright et al, 2000) who found out that high cost of credit and the small loans available to small and medium enterprises not only affect private sector business through increased costs of operation, but affects production performance and this has negative effect on profitability of the enterprises although they remain liquid due to continuous borrowing.

5.2 Conclusion

From the study, it is clear that there is great demand for financial services by SMEs, On the other hand, it s also evident that the supply for financial services is rampant from both formal and informal financial institutions. Even with all this demand and supply, SMEs continue to face myriad of challenges in trying to access financial assistance from these financial institutions.

collateral requirements has been cited as a major cause of these financing problems coupled with misuse of funds meant to assist SMEs grow into sustainable ventures. Lack of know how by small business owners about financing policies of these institutions have made SMEs incur losses in the repayment process since they end up making less than they borrowed hence some of them are forced to close down. Incase they continue operating, they are incapable of acquiring a subsequent loan.

Proper research should be carried out by financial institutions to have a proper understanding of the financial needs of SMEs. This should be done in line with the view of the SME"s in the bigger picture; as entities which are the backbone of the country's economy. The fundamental goal for the small and medium entrepreneurs is to make profits and ensure smooth running of their businesses. Similarly, financial institutions should aim to support these entities and give them as much audience as they give large firms.

The examination of small and medium business entrepreneurs should help financial institutions understand why the SME"s do not make use of their services and what they need to do in order to attract them to use their facilities. The view of examination of SME"s is to facilitate better management practices and education of the entrepreneurs of the importance to use loans from financial institutions to help them expand their businesses and better they performance.

5.3 Recommendations

SMEs are the backbone of all economies and are a key source of economic growth in advanced industrialized countries as well as in emerging and developing economies. They should therefore be able to operate consistently and become sustainable in the long run. This study provides the following recommendations to the challenges faced by SMEs in accessing finances from financial institutions:

Publication of Commercial Bank rates & charges: There is no credit information sharing in Uganda. This is attributed to banks being more interested in maintaining their dominance of certain market niches than sharing information. There is therefore a need for commercial banks to promote transparency by regularly publishing bank charges and interest rates in the print media, as is done in Kenya. This is likely to increase competition and thus ultimate reduction in interest rates.

Land Policy Reforms: The Government of Uganda should put a comprehensive national land policy to guide land usage and also to streamline land ownership. The current constitutional provisions have not adequately solved the historical conflict between mailo landlords and tenants, which has made tenants unable to use their land as collateral in banks because they have no land titles, the titles are with the mailo landlords who are the owners of the land.

Expand Leasing outside the major city: There is a need to encourage financial institutions to extend the non financial packages of leasing to the other towns outside Kampala. Leasing is a medium term finance option for acquiring equipment, business vehicles, plant and machinery by an entrepreneur through the bank. The bank purchases the equipment that is selected by the entrepreneur, the entrepreneur then pays a usage fee for an agreed period of time, at the end of which the ownership of the equipment is then transferred into the entrepreneurs" business name or it is depreciated and sold to a third party by the bank.

Credit Reference Bureaus: The Government of Uganda should support and strengthen the existing Credit Reference Bureaus which will enable lenders to make informed decisions about borrowers thereby reducing lending risks (thus improving access to finance).

Gender Issues: There is need for women empowerment considering the fact that the majority of small businesses are owned and run by women. Commercial banks perceive women as high risk borrowers and this is due to the property ownership rights which limit women's ability to own land that is very essential as a security (collateral) tool for them to access finance.

Since small and medium enterprises are meeting a number of costs when accessing the loans that are becoming prohibitive and making the operation costs high and eventually affecting their performance, financial institutions should devise a mechanism that can enable them cut the cost of their operation with the intention of cutting down the cost of giving out loans. This will attract more borrowers who are capable of utilizing the borrowed money, make profits and be able to pay back. In this way, both the small scale firms and financial institutions will achieve their objectives of better performance and making profits.

Small and medium enterprises should use the loans to invest in capital assets with relatively higher productivity abilities so that they may improve their turn over. This will enable them to expand and enjoy economies of scale. This in turn will reduce the demand for borrowing thus avoiding high costs of accessing loans.

5.4 Areas of further research

There are opportunities for further research that would give further insight into the area of access of finance and performance of small and medium enterprises. These areas include:

A longitudinal study of the relationship between cost of borrowing and performance of small scale business enterprises in Mbarara Municipality

This study focused on small and medium enterprises in Mbarara Municipality and Uganda is generally a big economy to generalize these findings to other business centres. Therefore, future research opportunities can be exploited by conducting the same study in other business districts and Municipalities.

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APPENDICES A:

QUESTIONNAIRE FOR SMALL SCALE MEDIUMS ENTERPRISES

Dear respondent;

You have been selected to participate in this study which seeks to find out the factors affecting access of financing by Small and Medium Enterprises from various financial institutions and their performance. The study is entirely academic and the response will be treated with a lot of confidentiality. The results of this study could be useful to both Small and Medium enterprises and also financial institution on how to serve the needs of SMEs better. Please feel free to tick in the most appropriate box and where possible give your view by writing in the blank spaces provided.

PART A: BACKGROUND INFORMATION

1; Name of the respondents………………………………………………(Optional)

2: Age:

Below 20 years ☐ 21 – 30 years ☐

31 – 40 years ☐ above 40 years ☐

3: Gender

Male ☐ Female ☐

4: Marital status

Married ☐ Single ☐ Other ☐

5: What is the name of your business? (Optional) ....

6: How many employees do you have?

0 – 5 ☐ 5 – 10 ☐ 10 – 15 ☐ 15 and above ☐

7: location of the enterprise?

Home ☐ Roadside ☐ Traditional market ☐

Mobile ☐ Industrial site ☐

8: Duration of business

2 years and below ☐ 2 - 4 years ☐ 4 years and above ☐

9: What form / type is your business?

Sole proprietorship ☐ Partnership ☐ Limited company ☐

PART B: ACCESS TO FINANCE BY SMEs:

1: Which financial institutions are in your location?

MFIs ☐ Banks ☐ Government ☐

Other (specify)…………………………………………………………………

2: From which financial institution have you ever sourced funds?

MFIs ☐ Commercial banks ☐ SACCOs ☐ Government ☐

Merry Go Rounds ☐

If you have not sourced funds; why haven't you applied?

☐ My business is financially stable and does not require any financial assistance

☐ The process is too tedious and I have never bothered

☐ Very high interest rates on loans are charged

☐ High collateral requirements

3: What was the purpose of the fund application?

Business start up ☐ Business expansion ☐

4: Prior to this funding, what was your major source of financing for your business?

Venture capital ☐ Donations ☐ Personal savings ☐

5: Financial assistance from financial institutions is an important element for growth and sustainability of your venture.

True ☐ False ☐

6: Rate the levels to which the following aspects limit fund accessibility.

(1) Strongly limit (2) moderately limit (3) does not limit (4) not sure

	1	2	3	4
Gender				
Profitability				
Capital invested				
Credit worth				
Period of operation				
Corruption by agents				
Collateral				
Industry sector				

7: Under the following conditions, rate the extent to which SMEs are viewed as risky ventures by financial institutions.

(1) Strongly agree (2) Agree (3) Neutral (4) disagree (5) strongly disagree

Conditions	1	2	3	4	5
Uncertain competitive advantage faced by SMEs					
Less equipped in terms of human and capital resources					
Inadequate accounting systems					
Uncertain repayment capacity					

8: To what extent do you think the following statements apply in your business concerning financial institutions? (1)Strongly agree (2) Agree (3) Neutral (4) Disagree (5) strongly disagree

Conditions	1	2	3	4	5
Financial institutions have made an effort to reach SMEs					
SMEs have great awareness of financial assistance from financial institutions					
Financial institutions only target large firms					
Financial institutions only aim at making profits from their services					
Terms and conditions set by financial institutions could change with changes in business environment					

PART C: PERFORMANCE OF SMES

1: Which of the following factors have a direct influence on the performance of your business?

Factor	Important	Neutral	Less important

Access to finance			
Cost of finance			
Access to land			
Entrepreneurial skills			
Government regulations			

2: how would you rate your enterprise performance according to the following condition?

Indicators	Time	High	Average	Low
Production volume at	Start up			
	Present			
Employment at	Start up			
	Present			
Sales volume at	Start up			
	Present			
Profit level at	Start up			

PART D: RELATIONSHIP BETWEEN ACCESS TO FINANCE AND PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES.

1: There is a relationship between access to finance and performance of SMEs

Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree

2: How would rate the performance of your business if you had access to finance

items	Very satisfactory	Satisfactory	Not changed	Fairly deteriorated	Greatly deteriorated
Market share					
Profitability					
Job creation					
Capital base					

2: if your business is to improve what aspects of financial institution needs to be addressed? ....
....
....

3: Are there other factors that have inhibited the performance of your business other than access to finance? If yes mention the ones you are aware of

…………………………………………………………………………………………………
…………………………………………………………………………………………………
………………………………………………………………………………….................................

Thank You For Your Cooperation