

**FINANCIAL ACCESSIBILITY AND GROWTH OF SMES IN KAWEMPE DIVISION  
KAMPALA**

**HOPE KAKIVUNA**

**M23B33/012**

**A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT  
OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF BACHELOR OF  
SCIENCE IN ACCOUNTING AND FINANCE OF UGANDA CHRISTIAN UNIVERSITY**

**April, 2026**



**UGANDA CHRISTIAN  
UNIVERSITY**

*A Centre of Excellence in the Heart of Africa*

## DECLARATION



I, KAKIVUNA HOPE hereby declare that to the best of my knowledge and belief, this is my original work and it has never been submitted to any academic award in any institution.

Signature: KAKIVUNA HOPE.....

Date: 21/04/2026.....

**APPROVAL**

the undersigned, certify that this proposal was prepared under my direct guidance and supervision. I certify that I have read and hereby recommend it for examination.

signed..........Date..........

Supervisor's Name: MR. AHABWE ALEX

## **DEDICATION**

This proposal is dedicated to my family and friends for their contribution towards our career success both in prayer and financially, may the Good Lord bless them abundantly.

## **ACKNOWLEDGEMENT**

I want to thank God Almighty who gives knowledge beyond human understanding and always present at all times.

Every good work is certainly impossible to accomplish single handed. Therefore, it is with heart felt gratitude that I convey thanks to all of you who made the writing of this proposal a success.

My gratitude goes to my Supervisor Mr. Ahabwe Alex for the continuous and effective supervision and guidance given to me throughout the process of writing my research proposal to its end.

Other special thanks goes to the staff of Uganda Christian University for the advice, guidance and support given from time to time.

Special appreciation goes to my parents, my friends and all those who helped me for their supportive work and guidance that they rendered me during my proposal and studies.

## TABLE OF CONTENTS

|                                  |     |
|----------------------------------|-----|
| DECLARATION .....                | i   |
| .....                            | i   |
| APPROVAL .....                   | ii  |
| .....                            | ii  |
| DEDICATION .....                 | iii |
| ACKNOWLEDGEMENT .....            | iv  |
| TABLE OF CONTENTS.....           | v   |
| ABSTRACT.....                    | vii |
| CHAPTER ONE .....                | 1   |
| INTRODUCTION .....               | 1   |
| 1.0 Introduction.....            | 1   |
| 1.1 Background of the Study..... | 1   |
| 1.2 Problem Statement.....       | 5   |
| 1.5 Research questions.....      | 6   |
| 1.6 Scope of the study.....      | 6   |
| 1.6.1 Content Scope .....        | 6   |
| 1.8 Conceptual framework.....    | 8   |
| CHAPTER TWO .....                | 10  |
| LITERATURE REVIEW .....          | 10  |
| 2.0 Introduction.....            | 10  |
| 2.1 Theoretical Review .....     | 10  |

|   |    |
|---|----|
| CHAPTER THREE .....   | 19 |
| METHODOLOGY .....   | 19 |
| 3.0 Introduction.....   | 19 |
| 3.1 Research Design.....  | 19 |
| 3.5 Data Sources .....  | 20 |
| 3.8 Ethical Issues. ....  | 22 |
| 3.9.1 Validity .....  | 22 |
| 4.0 Introduction.....   | 24 |
| Table 3: Age Group of Respondents.....  | 25 |
| CHAPTER FIVE .....  | 33 |
| DISCUSSION, CONCLUSIONS, AND RECOMMENDATIONS.....                             | 33 |
| 5.1 Introduction.....   | 33 |
| 5.3 Conclusion of the Discussion.....   | 36 |
| Questionnaire .....   | 37 |
| Financial Accessibility and Growth of SMEs in Kawempe Division, Kampala ..... | 39 |
| REFERENCES .....  | 37 |

## **ABSTRACT**

This study examined the relationship between financial accessibility and the growth of Small and Medium Enterprises (SMEs) in Kawempe Division, Kampala. The study was guided by three specific objectives: to establish the relationship between financial awareness and SME growth, to determine the effect of credit policy on SME growth, and to assess the influence of interest rates on SME growth. A quantitative research approach using a cross-sectional survey design was adopted. Data were collected from a sample of 52 respondents, including SME owners, government officials, and community leaders, using structured questionnaires.

The findings revealed that financial awareness significantly contributes to SME growth by improving decision-making, budgeting, and overall financial management. Credit policies were found to positively influence SME growth, particularly through accessible application procedures and flexible lending terms. However, high interest rates were identified as a major constraint, limiting borrowing and reducing profitability among SMEs. Overall, the study concludes that while access to financial services is crucial, the conditions under which these services are provided greatly determine SME growth and sustainability.

The study recommends enhancing financial literacy programs, designing SME-friendly credit policies, and regulating interest rates to create a more supportive financial environment. These measures would promote SME growth, employment creation, and economic development in Kawempe Division and Uganda at large.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 Introduction**

This paper will look at financial accessibility and development of SMEs at Kawempe Division, Kampala. It will entail the background of the study, problem statement, objectives of the research, scope of the research and significance of the research, and conceptual framework.

#### **1.1 Background of the Study**

Small and Medium Enterprises (SMEs) are extremely important in promoting economic development at the global scale, innovation, and job creation. These businesses constitute a major part of the business environment in all parts of the globe and they are major sources of employment and also Gross Domestic Product (GDP). Nevertheless, SMEs have a lot of challenges especially in regards to the financial resources they need to establish, sustain and grow.

Approximately 90 percent of the total number of businesses in the world are of the Small and Medium Enterprises (SMEs) and they offer over 50 percent of all jobs. Such businesses are very important to the economy since they generate employment opportunities, spur innovation and community growth and development. SMEs in developing countries play a significant role in diversifying the economy, enhancing productivity and decreasing the level of poverty. They contribute towards the establishment of a more balanced economic environment through provision of goods and services that are responsive to the needs of the locals. Nevertheless, even though they are essential, SMEs experience a great finance gap, which is approximated as about US\$5.7 trillion. This is a difference of around 19% of the total GDP of the Emerging Markets and Developing Economies (EMDEs), implying that a large number of SMEs cannot obtain access to amounts of funds to grow and survive. Such lack of financing may not allow such businesses to grow, to absorb more workers, and to be full-scale contributors to their communities. In addition, this financial deficit is disproportionately impacting women-owned SMEs with 34% of the total finance gap being contributed by the latter. The answer to this disparity is the necessity of improved financial assistance and policies that specifically aim and empower the SMEs,

particularly those which have women at the helm. Through the provision of the appropriate resources and opportunities, we can assist these businesses to ensure that they fulfill their potentials, flourish and play a critical role in the growth and development of their economies. It has been found that numerous factors other than financial access affect the growth of Small and Medium Enterprises (SMEs), which are interrelated.

Human capital is one of the factors, which includes the entrepreneurial talent and education of the human resources; these are necessary to create innovation and enhance operational efficiency. Also, the capacity to be innovative through the introduction of new products and services is essential in sustaining competitiveness in the market. The presence of technology is also an important factor since the utilization of digital tools can be used to improve productivity and expand the market base. In addition, SMEs need to be flexible to new consumer tastes and market dynamics that are crucial to long-term development. There is also the need to have a supportive business environment that is typified by conducive regulatory environment and proper infrastructure to facilitate the SME operations. Finally, social capital which is represented by close networks and relations offers essential resources and opportunities which can further enable the development of SMEs. A combination of these factors can form a complete ecosystem that can greatly impact success and prosperity of SMEs.

Among the aspects of SME growth, there are more sales growth, profitability, job creation, and market share. It is also associated with such qualities as sustainability and capability of coping with the market challenges. Financial accessibility, on the other hand, refers to the ease with which SMEs take and utilize different financial services, such as loans, savings accounts, insurance, and payment systems. The accessibility has three significant components: availability of credit, can be described as the ease with which SMEs obtain loans at banks; affordability of borrowing looking at the interest rates and loan terms; and financial inclusion, which gauges how SMEs are integrated into the formal financial system. All these ideas demonstrate the significance of financial accessibility in the development of SMEs.

A number of challenges are faced by SMEs in the developing countries in seeking to obtain financing. One of the biggest challenges is the absence of collateral since not all the SMEs will possess substantial assets to use as collateral when borrowing money in banks. Moreover, lenders

are usually affected by information asymmetry, i.e., they are unable to evaluate the creditworthiness of SMEs because of the untrustworthy financial information. Transaction costs are also a major factor since the cost of processing and monitoring small loans may scare financial institutions away in lending to such businesses. Moreover, poor financial literacy of SME owners can make them incapable of making informed.

Small and Medium Enterprises (SMEs) are critical to economic growth in Sub-Saharan Africa (SSA), which is estimated to offer 80 percent of all jobs in the region. These businesses though very important have serious challenges that limit their growth. The first problem is the inaccessibility of credit because most SMEs cannot find loans because of high-interest rates and because of inappropriate financial instruments designed according to their requirements. In addition, many SMEs are in the informal sector and this denies them access to formal financial services rendering them vulnerable and inability to develop in a favourable manner. SMEs play a significant role in the private sector, contributing an important portion of the income and employment in the country, and alleviating poverty in Uganda in particular. Nevertheless, access to finance has remained a serious hindrance to many SMEs in Uganda and many businesses have not had access to credit financing that could help them expand. Other impediments including low technology usage and high informality rates also complicate the scenario of the SMEs that are even more of a problem since the SMEs can no longer operate and be as productive as possible. The solution to these problems is the key to harnessing the potential of SMEs in Uganda and in the SSA region, in general.

Kawempe Division is a multicultural and dynamic economic center with complex and dynamic SME sector that plays a significant role in the local economy. Nevertheless, SMEs in Kawempe have a myriad of problems that hinder their development and prosperity. Access to credit is one of the main problems, and this is complicated with the insufficient infrastructure and rivalry among the companies. A large number of businesspeople in the region depend on commercial bank lending and informal lenders to fund their businesses. Although such financing options exist, many SMEs continue to fail to grow and make profits indicating that rather than just accessing the available financial resources does not guarantee success. The lack of collateral and poor repayment rates are among the factors that discourage the financial institutions to offer credit to these businesses. Besides, poor business plans can usually restrain the potential of the SMEs to make a

strong case to be funded. Add to these issues, the lack of digital skills among the entrepreneurs and bad data use habits also dampen their chances of growth and creativity. The solution to such problems is essential in creating a more supportive setting to SMEs in Kawempe that can flourish in the region to support the economic growth of the area.

Financial accessibility is the ease with which the Small and Medium Enterprises (SMEs) acquire and utilize financial services. Among them are credit availability, in relation to the ease of acquiring loans with banks; interest rate in relation to the cost of acquiring money; and financial inclusion in relation to how well SMEs have been integrated into the financial system. There are various indicators that define SME growth, including revenue growth rate, which indicates how much sales are made over a period of time; profitability, which is capability of making profits; employment growth, which is the number of new employment that an SME can control; and market share, which is the market that an SME dominates. Moderating and mediating factors also influence the relationship between the accessibility of finances and the development of SMEs. These are entrepreneurial, that is the capacity of business owners to run and grow their companies; digital, meaning the ability to utilize digital tools well; market conditions, which are the general economic conditions; and the business environment that consists of regulations and infrastructure that facilitate and impede the work of SMEs.

The two theories that form the basis of this study are the Resource-Based View (RBV) and the Social Capital Theory. Resource-Based View implies that companies can be able to take a competitive advantage by successfully exploiting their internal resources that encompass not only financial resources but also human resources that refer to skills, knowledge, and experience of the working staff. Through such resources, SMEs are able to enhance their operations, be innovative and react more appropriately to the market demands which ultimately result to growth and success. Social Capital Theory, on the other hand, focuses on networks and relationships as significant in assisting business to gain access to important resources and opportunities. Close relations with the suppliers, customers, and other businesses can offer valuable information, cooperation and support to SMEs that would help them grow. Combined, these frameworks provide an overall insight on an important role of financial accessibility, in addition to the right resources and social ties in helping the growth of SMEs. Combining these theories, the research paper emphasizes the fact

that it is not only about financial resources but what SMEs can do to leverage on their internal capabilities and external relations to succeed in a competitive environment.

## **1.2 Problem Statement**

In Uganda, a body of literature points at the financial accessibility as one of the major factors that impede the success of Small and Medium Enterprises (SMEs) especially in terms of their development, profitability and long-term sustainability. Major factors that have usually been cited as stumbling blocks to success include high interest rates, collateral security requirement and low initial capital. Although these insights have helped in identifying the challenges affecting most small enterprises lives, most of them still fail in the first year of operation. The Ugandan Private Sector Foundation (2023) estimates that only a small percentage of 5-10 percent of the start-up businesses last long enough to become full-scale. It is however not clear that these survival rates have been changing in the recent years. Kabale observations indicate that many of the small firms are experienced to commence and fail within one year of inception because of persistent financial hardships. Although it has been detected that financial accessibility issues are present in some regions of Uganda, there is a definite lack of empirical data that specifically investigates Kawempe Division, Kampala, specifically with the direct correlation between the financial accessibility and the SME development. The knowledge gap in the literature poses some of the most important questions concerning the situation of SMEs in the Kawempe Division and the factors that affect their success. Thus, the research is expected to explore how the financial accessibility influences the development of SMEs in the Kawempe Division, Kampala, to offer up-to-date research and fill this severe gap in the knowledge base.

## **1.3 Purpose of the study**

The purpose of the study was to examine the effects of financial accessibility on the growth of SMEs in Kawempe Division, Kampala.

## **1.4 Specific objectives of the study**

- i. To establish the relationship between financial awareness and growth of SMEs in Kawempe division.
- ii. To determine the relationship between credit policy and growth of SMEs in Kawempe division.

- iii. To find out the relationship between interest rates and growth of SMEs in Kawempe division.

## **1.5 Research questions**

- i. What is the relationship between financial awareness and growth of SMEs in Kawempe division?
- ii. What is the relationship between credit policy and growth of SMEs in Kawempe division?
- iii. What is the relationship between interest rates and growth of SMEs in Kawempe division?

## **1.6 Scope of the study**

### **1.6.1 Content Scope**

The paper will analyze the impact of financial accessibility on development of Small and Medium Enterprises (SMEs) in Kawempe Division, Kampala. It will concentrate on financial awareness, credit policy and interest rates relationship, since these are essential in determining the effects of the financial resources on SME success. Through these research areas, the study will establish certain financial restrictions that SMEs are experiencing to help the policymakers and other stakeholders to develop specific interventions to support SMEs in the region thus improving economic development of the region.

### **1.6.2 Time Scope**

The research will consider the data of the last 5 years or 2019-23. This time is chosen to give a modern picture of the SME development in correlation with financial availability and represents the economic situation and financial environment changes. The study of this period will enable the evaluation of the way that SMEs have managed to overcome crisis scenarios in the form of fluctuating interest rates, shift in credit policies and the continuing effects of global events including the consequences of the COVID-19 pandemic. The study will also help policymakers and stakeholders with the current trends and dynamics that guide the development of SMEs in Kawempe Division by concentrating on the recent years.

### **1.6.3 Geographical scope**

This research shall be conducted in some of the SMEs within Kawempe Division, Kampala District, Central region, Uganda. The selection of the SMEs within Kawempe Division will be done due to the high population of SMEs within the division that is facing financial accessibility challenges.

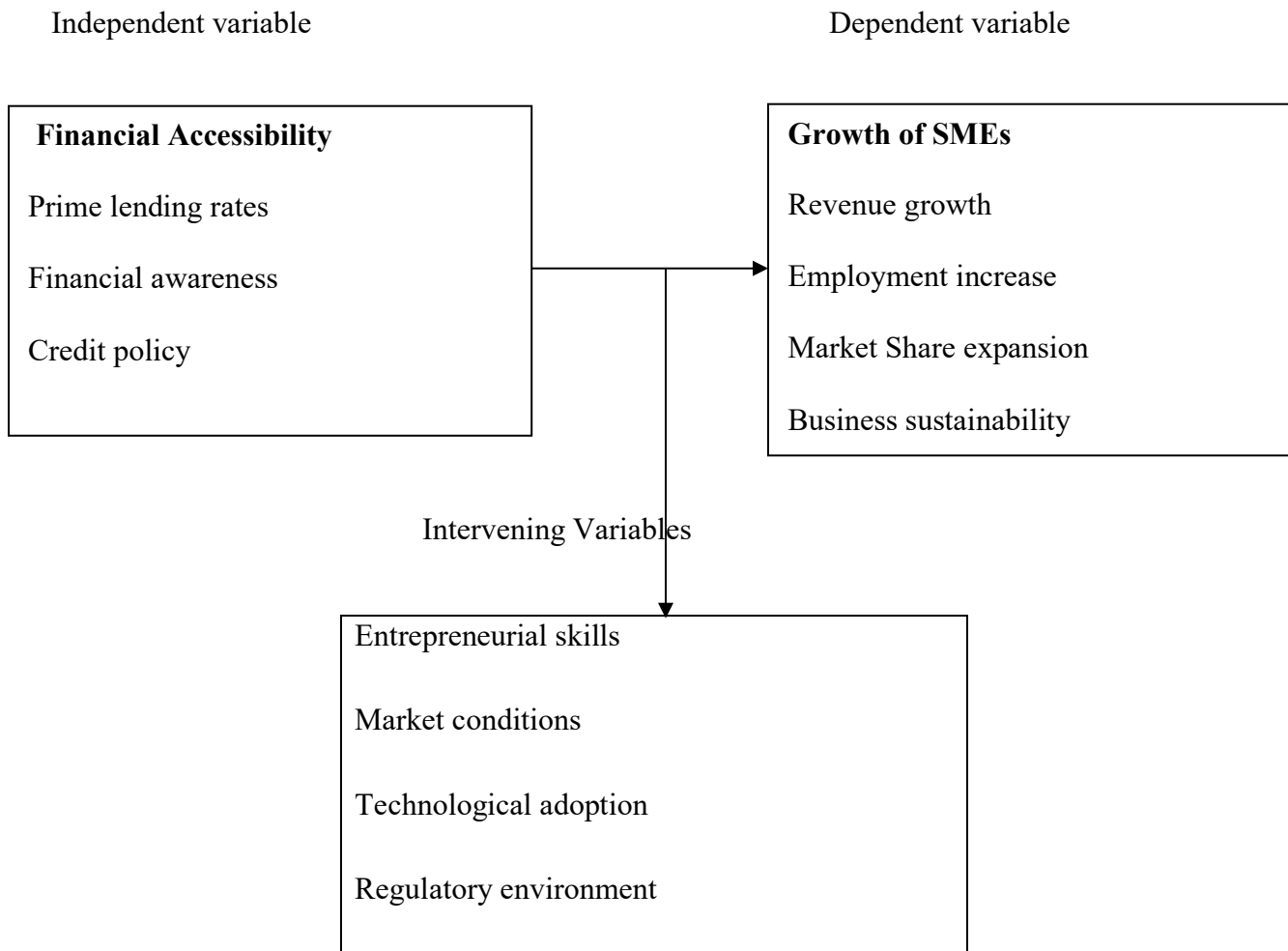
### **1.7 Significance of the study**

The research will contribute to the available research on the performance of SMEs and financial accessibility in Uganda. The research will offer data and information regarding the relevance of creditworthiness to SMEs that will assist them in enhancing their likelihood of receiving credit. The study will communicate to the financial institutions on how business enterprises perceive their services and therefore improve service delivery.

The data that will be documented in this study is directed primarily to help owners of SMEs in identifying the procedures and policies that are adopted by MFIs and other financial institutions where they source funding. It will assist the small entrepreneurs in addressing the strict terms and conditions demanded by the financing institution. The information derived by this research will also assist the micro-finance institutions to gauge in details the different challenges encountered by SMEs in accessing financing both at starting point and entire periods of growth.

## 1.8 Conceptual framework

Figure 1: Conceptual framework



Source: Adapted from Nwosa & Oseni (2013) and modified by the researcher

The conceptual framework discusses the connection between finances and the development of the Small and Medium Enterprises (SMEs), and points to the complexity of the dynamics. The independent variable that affects the dependent variable SME growth is the financial accessibility, which is determined by the prime lending rates, financial consciousness, and credit policy. The measure of growth can be based on the reference to such indicators as revenue growth, employment, market share, and business sustainability in general. Nevertheless, the relationship is more than just moderated by a range of intervening variables such as skills in entrepreneurship, which increases effectiveness in management; market conditions, which influence demand and competition; technological adoption which increases operational efficiency; and regulatory

environment which can facilitate or restrain access to finance. All these aspects collectively emphasize the need to not only offer financial support but also to create an environment in which SMEs can holistically develop, which in the end leads to the success and sustainability of the latter.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

#### **2.1 Theoretical Review**

When examining the issue of financial accessibility and its impact on the development of Small and Medium Enterprises (SMEs), a number of theories can be used to understand the connection between financial accessibility and business performance. These are; the Resource-Based View (RBV), the Social Capital Theory, the Financial Intermediation Theory and the Behavioral Finance Theory. All these theories provide an alternative view on the effect of financial resources in growth of SMEs.

##### **2.1.1 Resource-Based View (RBV)**

Resource-Based View (RBV) proposes that success in business is attainable through optimal capitalization of internal resource in a business. In the case of SMEs, access to financial resources is important in order to invest in growth opportunities and enhance operations. The RBV focuses on the fact that it is not only about money, but how the SMEs utilize the money in addition to their skills and capabilities to develop. Recent survey reports indicate that financial resources coupled with good management can make the SMEs successful.

##### **2.1.2 Social Capital Theory**

The Social Capital theory emphasizes the fact that relationships and networks are relevant in the process of obtaining financial resources. According to this theory, the SMEs that have close ties like those with banks, suppliers and other enterprises are in a better position to attract funding and acquire valuable information about the market. According to the latest studies, these associations not only allow the SMEs to find funding, but also offer assistance to address the difficulties and seize the growth prospects.

### **2.1.3 Financial Intermediation Theory**

The Financial Intermediation Theory describes the role played by financial institutions, such as banks, in the process of linking savings to borrowing. The theory considers the way banks make a decision on loaning and at what conditions, which directly impacts on access to finance by the SMEs. The latest research shows that alterations in the nature of the operation of banks can greatly influence the possibilities of the SMEs to receive a loan and to develop.

### **2.1.4 Behavioral Finance Theory**

Behavioral Finance Theory is a theory that investigates the influence of psychology in financial decisions. This theory can be useful in explaining the failure of some SMEs to obtain finance. It implies that entrepreneurs are prone to misconceptions or prejudices that affect their perception of risk and borrowing. According to recent studies, these prejudices may result in incorrect financial decisions. Financial awareness and knowledge among the owners of SMEs can be improved to offer a chance to secure funding and expand the businesses.

## **2.2 Relationship between financial awareness and growth of SMEs**

Empirical research on the development of the Small and Medium Enterprises (SMEs) and measurement of financial awareness have already been studied extensively, although the two issues have been discussed in isolation. The primary subject in most of these studies is the determinants of savings and financial awareness of different populations (Aren and Dinç-Aydemir, 2020; Özdemir et al., 2021; Baysa and Karaca, 2022; Şamiloğlu et al., 2022). However, in spite of the comprehensive research, very few studies examine the direct impact of financial awareness on the household income. The results of these limited researches suggest that there is a positive correlation in that higher financial awareness improves savings behavior, which, in turn, will positively affect household income (Beckmann, 2021; Murendo and Mutsonziwa, 2023). This literature gap reveals a need to conduct additional studies on how financial awareness can motivate not only the levels of individual savings but also the overall economic performance, especially in the SME sector, in which financial literacy might be paramount in promoting development and sustainability.

Financially conscious clients make the best financial and economic choices, such as saving, borrowing, investing, and optimally managing their day-to-day finances (Capuano and Ramsey, 2021). More and more empirical studies have illustrated that financial literacy has a big role in the management of individual finances including assets and liabilities. That is why it is significant that

financial literacy has been a policy issue in the developed states since the 1990s. Even though developing and low-income countries have been lagging behind in acknowledging the significance of financial literacy, the current situation shows that it is also becoming a policy concern in these countries. Miller et al. (2022) note that the financial awareness promotion of developing nations is essential as their financial sectors are introducing new service providers and intricate financial products to the consumer population in the marketplace. This necessity of specific financial literacy efforts is therefore critical in order to empower the individual and increase the economic stability in these changing financial environments.

The financial awareness plays a significant role in the development of Small and Medium Enterprises (SMEs) since individuals are the suppliers and the demanders of funds in the financial system. Jappelli and Padula (2021) discovered that the higher the financial awareness levels in a country, the better the rates of savings in a country and a one-unit standard deviation of financial awareness leads to a 3.6-point increase in national savings. Therefore, to improve financial education, a lot of nations, especially in the United States and the European Union, are striving to encompass the aspect of financial education in primary school curriculums and set up various financial education programs at the adult stage. Moreover, Shankari et al. (2021) suggested that economically conscious customers create a true competition that forces service providers to be creative and efficient. Not only will it help the consumers, but it will also help generate and maintain the financial system and economy. Moreover, financial enlightenment can be of benefit to the regulators of the financial sector; according to Shankar et al. (2022), financial literacy strengthens the operations of financial regulators, as people become capable of seeking and processing financial information and thereby decreasing information asymmetry between service providers and customers, ultimately preventing any market failure.

### **2.3 Relationship between credit policy and growth of SMEs**

Historically, agricultural development financing has been a part of the small business sector policy of the Ministry of Trade that acts as an important instrument of realizing other government development needs, such as social, political, and equity goals (Ibrahim and Bauer, 2021). Although certain policies regarding business credit have been set in place the major emphasis has been put on expanding access of small farmers to institutional credit which is usually at subsidized rates and without the need to secure collaterals. Nevertheless, the successful generation of the agricultural development process is subject to the availability of the clearly defined financial loan policy framework and strategy. It is necessary to note that the tension and contradictions may occur between these different areas of policies that should be discussed with the help of constant debates and constant dialogue of policies (Maurer, 2023). This discussion is necessary to make sure that the financial strategies that are put in place do not only favour the agricultural development but also in line with the general goal of sustainable development and fairness in the agricultural sector. Through these discussions, the policymakers will be able to establish a more consistent and efficient strategy of financing the agricultural development which is aligned with the various needs of the farmers and which helps stabilize the economy as a whole.

It is a conventional wisdom to consider that the main aim of the credit policy is to ensure the provision of appropriate and cost-effective financial services that are crucial to the development of the Small and Medium Enterprises (SMEs). This also concerns the move into an focus on no longer providing set financial products to meet the demands of financial services that can be tailored to the individual needs of SMEs (Christopher et al., 2021). To make this approach effective, the bank management and personnel must have a clear idea about the requirements of specific needs of their clients and respond to them in a proactive way, thus developing long-term relationships between the banks and their clients. The demand-driven strategy allows banks not only to develop these relationships, but also to improve the efficiency of the financial intermediation services offered to SMEs so that the financial solutions are designed to address their needs and particular situation. This client-focused approach can result in better financial inclusion, economic resilience, and more dynamic SME environment, which will eventually enhance the general economic growth and employment.

As much as there should be strategies that could be put in place to ensure that credit policy environment is favourable to the growth of SMEs, it might not be sufficient. The business markets

need to be developed with a supportive system of credit policy, and direct interventions can be necessary to speed up the construction of the sound agribusiness sector. This is the case with formulation of appropriate prudential banking policies alongside financial contract laws and procedures of the effective enforcement of the contract laws, in the developing countries and in countries in transition due to the recent changes in the macroeconomic environment brought about by liberalization and globalization. Financial institutions are not relying on agricultural lending which is of high risk; in fact there is a tendency to transform agricultural banks into universal rural banks. The banking law is to stipulate the contractual nature of agricultural loans and reinforce them (Katchova and Barry, 2020).

By promoting credit policies, trade and product prices liberalization will be enhanced thereby rendering on-farm investments more profitable and appealing in addition to benefiting the national economy. Although the availability of credit and deposit facilities is likely to assist the poor rural population to reconcile their production and consumption requirements, there might not be sufficient opportunities to utilize them constructively to the farmers and micro entrepreneurs, unless supplemented with a wider range of non-financial services and investments in rural infrastructure (Lynam, Beintema & Annor-Frempong, 2022).

The maintenance and execution of policy reforms within structural adjustment programmes is a matter of creating a consensus and establishing the proper priorities and strategies towards improved agricultural business. It is not only necessary that governments ensure that they realize right loan policy reforms in the right sequence, but they must also ensure that they are implemented. This can at times imply paying losers and giving the appropriate kind of incentives to exhibit some behaviour. This is why it is critical to enhance the involvement of all the stakeholders (financial institutions, farmers, and other players in the private sector including traders and agribusiness or donor agencies and NGOs) in agricultural finance policy development (Langat, 2022).

By enhancing the monitoring and evaluation of credit policy by each of the financial institutions and the farmers is critical in enhancing the SME growth. Specifically, the policy delivery should be assessed in the context of effectiveness, efficiency, equity and enforceability of the declared policy objectives, and offer feedback to the policy decision makers. The effects of the agricultural finance policies require to be observed in some specific areas that include: better commitment to sustainability, better access to loanable resources through savings/deposit mobilization, better

access to refinance facilities, should it exist, better access to training facilities and better capability of rural financial intermediaries to manage and staff as well as increased access to appropriate and robust financial services at an affordable cost among others.

#### **2.4 Relationship between interest rates and growth of SMEs**

Cost of Finance (COF), or Interest Rate, is the cost of money and is defined as the cost of interest charged on their money and other expenses involved in construction or acquisition of assets. Whited (2021) in his modern research on rural finance holds the view that the cost of money is supposed to offset the lender the capital cost of having access to some facilities in performing contracts. The rate of money will include the cost of operation, administrative expenses as well as a reasonable rate of interest charged by the lending institutions. In line with this, Odongo (2023) determined that the cost of money can be fixed throughout the loan period or can be varied according to the dynamics in the market. Odongo further hypothesized that the cost of money through the eyes of the SMEs is the expenses incurred in acquiring funds as a result of borrowing money through the financial institutions and he identified four principal elements of the cost of money and these are costs of funds, loss of loans, operating expenses and profits. The Central Bank rates (CBR) are usually the rates that are charged by the financial institutions and this is the rate that the financial institutions deal with the central bank. CBR itself is based on the existing macroeconomic factors, and in Uganda, this is regulated by the Bank of Uganda, the central bank of the country (Namatovu, 2023).

Zecchini and Ventura (2023) advise that it is universally agreed that financial institutions need to maintain their costs as low as possible by charging proportionate interest rates and high enough fees to meet those costs in order to operate profitably and sustainably. The inability to gain access to finance, however, could be one of the key causes why a strong relationship to be found between SME prevalence and economic growth is not always found. Monetary limitations especially make small firms unable to realise their growth potential in terms of financial performance (Wanjohi, 2023). These researchers also argue that all as much as SMEs strive to achieve financial sustainability in many ways, financial institutions tend to limit the endeavors of the SMEs by charging them high interest rates to meet the expenses of lending money and other services. This makes the environment very difficult to the SMEs as they can hardly flourish and effectively contribute to the growth of the economy.

Both Rosenberg (2021) and Zecchini and Ventura (2021) argue that the interest rates paid by the Small and Medium Enterprises (SMEs) are money that is taken out of the pockets of clients and it is not reasonable to only recoup the cost of lending. The lending rates that are not profitable but are able to cover the costs can be considered excessive in case costs are too high because inherent inefficiencies are avoidable and they can adversely affect the financial performance of SMEs. As a consequence, lending rates and availability of debt finance to develop business have an inverse relationship. By reducing lending rates, SMEs are likely to get more access to finance in the form of debt and increase profitability and growth, whereas high lending rates reduce access and therefore stagnate performance among SMEs (Wanjohi, 2023). The average lending rates in Uganda have been high as they have been in between 18-26 percent on the average. This has mainly been caused by the fact that there is no competition in the banking sector. According to Mashenene (2023), these have been triggered by the emergence of a small number of banks with a significant market share, high levels of operational inefficiencies, high levels of operations cost, and perceived risk of borrowers leading to these continued high lending rates.

Interest rates also form an important consideration that influences the development of Small and Medium Enterprises (SMEs). As seen by Anyawu et al. (2021), the delivery of sufficient credit to the agricultural players at a reasonable cost and in a timely fashion has been one of the main objectives of agricultural credit policies over the years. Afolabi (2021) argues that the intervention of the government through sectoral credit distribution, oligopolistic behavior, interest rate floors, and extremely concentrated market structure that promotes monopolies have made various inefficiencies that bring about economic distortions in the economy. Empirically, many studies have been conducted to determine the role of interest rates on the growth of the business and it is clear that lending price may have a profound effect on the capacity of SMEs to survive and grow. These papers highlight the importance of continuous review of credit policies to be able to remain in line with the development of SMEs in addition to establishing a competitive financial environment.

Chambers and Just (2022) also mentioned that although some studies observed that interest rates contribute to the development of SMEs, nevertheless, other studies observed that the interest rate has comparatively minor influence on the small business segment of the economy. They criticized the interest rate treatment of agricultural trade models. Their results were evident: the strategy of

how to address the interest rate in agricultural models back then was excessively constraining in the specification of the interest rate variable in the empirical models of business trade.

The study conducted by Omojimate (2022) on the association between SMEs growth and macroeconomic policy and institutions gives strong indication in the maintenance of the hypothesis that institutions play a bigger role in economic growth especially the growth in the Nigerian business sector. The research gave the suggestions that, the interest rate needs to be liberalized to the business community and institutional assistance needs to be reinforced primarily on the matters like extension facilities to farmers and subsidized inputs.

Amassoma, Nwosa and Ofere (2023) analyzed the nexus of lending rate, deregulation of interest rate and the productivity of SMEs in Ghana on the basis of the annual data that takes the period between 1986 and 2009. Ordinary least squares (OLS) econometric estimation method and co-integration and ECM were also found applicable, and long run relationship was unveiled among the variables in the co-integration test whereas error correction modeling showed that there exists significant and positive relation between agricultural productivity and interest rate deregulation. The research also advised that interest rate ought to be market determined in order to act as a stimulus towards better agricultural productivity. One also expects that government should ensure that the financial sector is able to implement the policies that will see that available credit is provided to the desired sector particularly all forms of farmers and not larger borrowers solely so that the government alone can improve the productivity of the Ghanaian agricultural sector.

Empirically, Kolawole (2023) explored the role of interest rate and a few macroeconomic variables on the performance of the Nigerian small business sector based on time series annual data of 1980-2011. The research utilized the ECM model as the OLS regression estimation. The relationship between the variables and the ECM model was discovered to be a long run relationship that established that interest rate spread and small business productivity showed an inverse relationship. Another negative correlation was between business productivity and exchange rate. This implies that when the interest rate spreads and exchange rate are assumed to be higher, then the level of agricultural value added in the country will be reduced.

The cost of interest on inventory holding may influence the profitability of SMEs in a great way. The interest collected on debt of the business or the interest that would have been paid, commonly referred to as opportunity costs, in case the inventory had been sold is the cost of holding the inventory. As a matter of fact, however, the interest rates may move within a big spread of four to six per cent in operating loans to 18 to 24 per cent in short-term loans taken by agri-businesses. The consequences of high interest rates are normally an extra financial strain to agribusiness. The cost of production analysis should have the interest costs incorporated in it.

### Conclusion

Interest rates and growth of Small and Medium Enterprises (SMEs) have a very significant relationship which is also complex. When it is expensive to borrow funds, SMEs may not be able to expand to their fullest potential as they cannot get finances necessary to be profitable. Despite the existing policies to offer affordable credit, issues such as absence of competition and inefficiency in the financial institutions remain as a challenge. Recent reports indicate that when banks provide loans to SMEs, they should pay more attention to the requirements of particular companies. Policymakers can also contribute to the accessibility to finance by lending to SMEs fairly and maintaining reasonable interest rates. This, on the other hand, will facilitate their growth and assist in the general growth of the economy. There must be continuous debates and reviews of financial policies to establish an environment that would enable SMEs to flourish and make the economy stronger in general.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0 Introduction**

This is the chapter that discusses the methodology that the researcher will be applying in the process of conducting the research. This comprises of the instruments employed by the researcher including the research design, area of study, study population, sample selection, data sources, data collection methods, data analysis as well as the ethical concerns and limitations of the study.

#### **3.1 Research Design**

The research will utilize the quantitative research methodology and cross-sectional survey design. This design is based on gathering numerical data in order to make inferences about the population we are interested in at a certain point of time. The quantitative approach is chosen since it is possible to analyse the impact of numerous demographic features of people, including age, on personal distinctions. The survey shall employ the use of statistics in establishing the correlation between the accessibility of finances and growth of Small and Medium Enterprises (SMEs) in Kawempe Division. This strategy is good to collect data efficiently, reduce expenses, and present objective findings that can be used to make decisions about the development of SMEs and the access to finances.

#### **3.2 Study Area**

The research shall be undertaken in various SMEs found within the village of Bwaie 1 of Kawempe Division, Kampala District, in Central region of Uganda. The SMEs in the Bwaie 1 village will be chosen since it is one of the Kampala divisions where there are many SMEs that are currently faced with low levels of financial accessibility.

#### **3.3 Study Population and Sample Size**

The Strategic Plan 2016-2021 of the UIA indicates that the number of registered SMEs in Bwaie 1, Kawempe Division was 1,300 at the beginning. But considering the rate at which SMEs fail, this number may have reduced as many of them do not last long after they are founded. In this research, the researcher will target a population of 60 SMEs in Bwaie 1 that have particularly experienced problems with financial access. A sample of 52 SMEs will be selected based on the

Krejcie and Morgan (1970) table in order to provide a strong representation of the population on the analysis. Such a strategy will yield significant information about the problem of financial accessibility of SMEs in the region.

### **3.4 Sample size and selection**

#### **3.4.1 Sample Size**

A sample size is the amount of sub-elements or individuals who are randomly chosen and allocated in a population (Amin, 2005). It will consist of 52 respondents in the population of the study (Krejcie and Morgan sample size table 1970).

**Table 1: Sample size**

| Categories of respondents | Population | Sample size | Sampling Technique |
|---------------------------|------------|-------------|--------------------|
| Government Officials      | 18         | 14          | Purposive          |
| SME Owners                | 24         | 20          | Random             |
| Community Leaders         | 18         | 18          | Purposive          |
| Total                     | 60         | 52          |                    |

### **3.5 Data Sources**

Primary sources: Primary data assisted the researcher in getting fresh and unused data in the establishment of events. The researcher personally accessed the respondents using different data collection tools, including interviews and questionnaires.

### **3.6 Data Collection Methods and Instruments**

Data collection was defined as systematized collection of research data on a particular phenomenon (Amin, 2005). The researcher employed primary data gathering in the research.

#### **3.6.1 Questionnaire**

According to Kumar (2005), a questionnaire refers to a written series of questions whose responses will be taken by the respondents. The questionnaire will be developed in form of sets of questions which will be filled and sent back to the researcher to be analyzed. Data responses to this study will be gathered through self-administered questionnaires on elements of the study variables that will require a five-point Likert scale response continuum (5 = strongly agree, 4 = agree, 3 undecided, 2 disagree, and 1 strongly disagree). Such form of data collection will be favored since

it will offer a high level of confidence on the anonymity and confidentiality of research respondents.

### **3.7 Quality Control**

#### **3.7.1 Validity**

According to Collis and Hussey, (2022), validity of instrument is the capacity of the instrument to gather reasonable and factual data; in other words, to measure what the instrument has been created to measure. The questionnaire will be designed on the aim of the study. These data collection instruments will be availed to the supervisor who will certify the content validity of the instrument that is; the ambiguity of the question items and their relevancy. To calculate the content validity index the questionnaire will be pretested on 10 respondents. When the average percentage is found to fall above 0.7 (70%), then the content is said to be valid. The validity of the instrument is checked by the formula presented below:

$$CVI = \frac{R}{R + N + IR}$$

Where; R is Relevant, N is Neutral and IR is irrelevant. The nearer to 1 is the value, the more legit the instrument (Amin, 2005).

#### **3.7.2 Data Quality Control and Management**

Validity of a questionnaire means whether it measures what it purports to measure (Mugenda, 2003). When testing the validity, the research will use the content related validity by consulting the supervisor of the researcher and his peers. The researcher will design questionnaires which will be subjected to examination and recommendations to the relevancy, clarity and appropriateness. The supervisor will give out suggestions that will be included in the final draft. The reliability of the research tool will define the extent to which the research tool is able to produce similar results upon repeated use. The researcher will achieve this reliability by administering the questionnaires and carrying out pilot tests with different respondents necessary adjustments will be made to make sure that the questionnaires will gather relevant data.

### **3.8 Ethical Issues.**

A copy of the introductory letter provided by the University, through the Faculty of Business, will be provided to make sure that the information acquired in the course of the research is purely academic. The letter will be used as a formal guarantee to the participants of the study concerning the purpose of the research and the ethical treatment of their data. The researcher will make sure that the participation is on a voluntary basis as well it is clear that there will be no forms of coercing the participants. The subjects will receive full information of the type of study and their rights before consenting to participate in the study. Also, the researcher will debrief the recipients prior to collecting data among them, which will include giving them a brief of the aims of the study and responding to any questions and concerns they might have. The exercise will contribute to building trust and transparency between the researcher and the participants. Moreover, the documents all needed in this work will be strictly referenced to acknowledge the input of the sources of secondary data. Such adherence to scholarly honesty will bring forth the trustworthiness of the study and will be a credit to the preceding efforts of other researchers in the discipline.

### **3.9 Limitations of the Study**

The problem related to the selection of samples will also occur because there will be the risk of sampling errors because a probability sampling method will be employed, which might not be a true reflection of the general or relevant population. In addition, the sample size will not be sufficient to be measured statistically. In order to carry out an effective study, it will be necessary to have a large enough sample size in the event of making valid conclusions. The sample size will pose a problem when it is too small because the statistical tests will not be able to find any significant relationships in the data given since the sample size usually needs to be larger to be sure that the sample represents the population. This is essential towards making sure that it can be generalized to a larger population, which, in the long-run, will influence the validity and generalizability of the research findings.

#### **3.9.1 Validity**

According to Esaiasson et al. (2003), validity is the lack of systematic errors with regards to research instruments. To make the instruments valid, I will involve an expert in the field who is my research supervisor to review my development of questions critically. I will test the validity

with a pilot study of a sample of the SMEs in Kawempe Division which will provide the information on whether the items make sense and are relevant or not. Moreover, I will perform a content validity test to make sure that every question can measure the constructs concerning the interest rate and its effect on the performance of SMEs. Such a stringent methodological approach will provide me with help in formulating relevant research questions and will allow me to make valid findings and recommendations as per the findings of the study.

### **3.9.2 Reliability**

Reliability is the factor that constitutes how various researchers can make similar inferences with the same experimental designs or samples of participants in order to have the same measurements consistently (De Vaus, 2001). I will first carry out a pilot study to determine the reliability of the research instruments and use Cronbach alpha, a standard statistical technique of evaluating internal consistency between the items in the instrument. Such an analysis will facilitate the determination of how far the questions produce similar and constant results in different contexts. Through serious reliability testing, I will be able to increase the strength and validity of the research results so that my conclusions will be valid and reliable.

### **3.9.3 Data Analysis**

The research will be based on the analysis of the correlation between financial accessibility and the development of Small and Medium Enterprises (SMEs) in the Kawempe Division, Kampala. It will examine the impact of financial resources access on the performance and sustainability of SMEs in this region because access to finances will have important contribution to the success of the SMEs to invest, grow and innovate. The research will offer very useful insights into the issues of the SMEs in Kawempe Division by examining the interest rates and the lending practices. A quantitative analysis employing the cross-sectional survey design will be utilized to gather data on a sample of SMEs and provide policymakers and financial institutions. Finally, the results will aim at confirming how increasing financial accessibility will boost the growth opportunities of SMEs, which will result in economic growth in Kawempe Division.

## CHAPTER FOUR

### DATA PRESENTATION AND ANALYSIS

#### 4.0 Introduction

In this section, the data that was gathered and evaluated in the context of the study Financial Accessibility and Growth of SMEs in Kawempe Division, Kampala is provided. The respondents that undertook the research were 52 in total and 52 respondents filled the questionnaires. The results are tabled in line with the aims of the study, which deal with the effect of the financial accessibility aspects on the development of small and medium firms. The raw data were carefully checked to ensure uniformity and clarity and responses were tallied and tabulated in frequency distributions to establish the patterns of responses. This was then compared and assessed on a percentage basis giving a total picture of the data trends that will be used in the next sections to analyze.

#### 4.1 Response Rate

As expected, the study received a 100 percent response rate as shown in the table 4.1 below.

**Table 2: showing the Response Rate**

| Category | Target sample | Percent |
|----------|---------------|---------|
| MALE     | 20            | 38.5    |
| FEMALE   | 32            | 60.5    |
| TOTAL    | 52            | 100     |

Source: primary data 2024

According to the table above, the response rate was very good as it attained 100% results.

#### 4.2 Demographics of respondents

This section includes cross cutting characteristics of all respondents that were involved in the research study for instance, age, marital status and more.

##### 4.2.1 Age of Respondents

The study respondents were of varying age groups, as indicated in Table 4.2.1 below.

**Table 3: Age Group of Respondents**

Age Group Frequency Percent (%)

|             |    |      |
|-------------|----|------|
| 20-25 years | 6  | 11.5 |
| 26-35 years | 19 | 36.5 |
| 36-45 years | 10 | 19.2 |
| 46-55 years | 17 | 32.7 |
| Total       | 52 | 100  |

Source: Primary data 2024

According to the findings in the table above, the majority of the respondents were in the age group of 26-35 years, comprising 36.5% of the total. This group was followed by those aged 46-55 years at 32.7%. The smallest representation was from the 20-25 year age group, which accounted for only 11.5%.

#### 4.2.3 Education levels of respondents

Respondents who participated in the study were of different education levels as indicated in table 4.2.3 below.

**Table 5: showing the education level of respondents**

| Level       | Frequency | Percentage |
|-------------|-----------|------------|
| Certificate | 9         | 19         |
| Diploma     | 16        | 35         |
| Degree      | 15        | 33         |
| Masters     | 6         | 13         |
| Total       | 46        | 100        |

Source: primary data2024

Given the statistics in the table above, it is evident that the majority of the respondents were of diploma holders represented by 35%, these were followed by the degree holders with a

representation of 33%, followed by certificate holders represented by 19% and the minority were Masters holders that were represented by 13%. This indicated that the people in the study area are emphatic on educating their children.

#### 4.2.4 Relationship between financial awareness and growth of SMEs

Please indicate how you feel about the impact of financial awareness on your business growth.

| Statement   | Strongly Disagree (1) | Disagree (2) | Not Sure (3) | Agree (4) | Strongly Agree (5) |
|---|-----------------------|--------------|--------------|-----------|--------------------|
| 1. I have a good understanding of financial tools available to SMEs.          | 5                     | 8            | 7            | 18        | 14                 |
| 2. Financial training has improved my decision-making process.                | 3                     | 8            | 6            | 15        | 20                 |
| 3. Increased financial awareness has positively impacted my business growth.  | 4                     | 6            | 5            | 18        | 19                 |
| 4. Knowledge of budgeting has helped me manage my cash flow effectively.      | 2                     | 7            | 6            | 20        | 17                 |
| 5. I actively seek financial information to make informed business decisions. | 3                     | 4            | 4            | 18        | 23                 |

#### Source; Primary data

Based on the results of the data collection, it is possible to mention the following insights.

About 61 percent of the respondents who agreed with, and strongly agreed with the question, were confident in their knowledge of the financial tools that are open to the small and medium-sized enterprises (SMEs). Such awareness is significant because it shows that a significant proportion of

the business owners in the region are aware of the relevance of such financial resources as a way of expanding their business capacity and decision-making. This understanding will equip them to use the different tools in their benefit, which will eventually make them grow and survive in a competitive environment. Such a solid financial knowledge base highlights a possibility of better business performance and flexibility across SMEs.

An interesting 67 percent of the respondents respond affirmatively that financial training has greatly enhanced their decisions or strongly affirm that it has. This observation underscores the importance of financial education in providing a business owner with the necessary skills to survive the complicated financial environment. Increasing their knowledge on matters related to finance makes the respondents feel advanced enough to make sound decisions that directly influence their businesses. Such training raises the level of confidence in financial management not only but also creates a more strategic attitude to business activities. Consequently, better allocation of resources, enhanced efficiency of the operations, and consequently, increased business success can be achieved due to the positive contribution of financial training.

A staggering 71% of the surveyed people are of the strong opinion that, their business has been positively influenced by financial awareness. This underscores the fundamental importance of financial literacy in the performance of small and medium-sized enterprises (SMEs). The owners of the business have a greater chance to make strategic decisions that can help grow the business when they have greater knowledge of financial concepts of investment opportunities, cash flow management, and risk assessment. This will make them secure in their financial situation, grab new opportunities and further propel their businesses in a competitive environment. Higher financial consciousness is a source of informed decision-making and sustainable growth and innovation in their businesses.

Moreover, two-thirds of the respondents (71 percent) are either in agreement or strongly agree that their level of knowledge about budgeting contributes to their effective management of cash flow to a great extent. This definition of budgeting plays a vital role in the business operation since a business owner can keep track of his income and expenses. With the knowledge of the art of budgeting, they will be able to trace the trends, establish the financial objectives and use the available resources in an efficient manner. This is because this ability to handle cash flow

effectively will mean that SMEs do not have to face any shortage of cash to meet their financial requirements and even invest in areas of growth without having to depend on the cash available. Experienced budgeting serves as a cushioning mechanism, as it helps business owners to react positively to financial pressures and stay afloat in the business.

It is interesting to note that a significant number of respondents (79% of all respondents) actively pursue financial information in order to make informed business decisions, which points to the initiative of such SMEs in financial management matters. This dedication to collect the appropriate financial information and knowledge is crucial to the process of sailing on the turbulent market sea. The planning and decision-making processes of business owners may be improved by keeping up with financial trends, available resources, and best practices. This initiative to acquire financial literacy not only equips them with more information to make more informed decisions but also instills in them a spirit of improvement and flexibility in their organizations. Last but not the least, such an activity in pursuing financial data preconditions both the long-term success and the success in the current competitive arena.

#### 4.2.5 Relationship between credit policy and growth of SMEs

| Statement   | Strongly Disagree (1) | Disagree (2) | Not Sure (3) | Agree (4) | Strongly Agree (5) |
|---|-----------------------|--------------|--------------|-----------|--------------------|
| 1. The credit application process is straightforward and accessible for SMEs.   | 4                     | 10           | 5            | 20        | 13                 |
| 2. My business has benefited from credit products designed for SMEs.            | 3                     | 8            | 6            | 18        | 17                 |
| 3. Understanding the terms of credit has allowed me to make informed decisions. | 2                     | 7            | 8            | 20        | 15                 |
| 4. Credit policies provided by banks support the growth of my business.         | 5                     | 9            | 10           | 18        | 10                 |
| 5. Flexibility in credit terms has improved my business's financial stability.  | 2                     | 5            | 7            | 22        | 16                 |

## Findings

A large percentage of the respondents, who are 63, concur that in Kawempe Division, the process of credit application is easy and is available to small and medium-sized enterprises (SMEs). This feeling emphasizes the significance of well-defined and easy application procedures because it has a direct impact on the possibility of the businesses getting the required funding. When the credit application process is simple and made comprehensible to SMEs, they tend to avail the financing opportunities, which would increase their operational capacities and future growth options. Availability of credit application process does not only ease the capital movement into such businesses, but also enables the owners to make the right decisions in time, which will lead to their success.

About 67 percent of the respondents stated that their businesses have enjoyed credit products developed to benefit SMEs. This fact points out to the importance of customized financial services that address the individual concerns of small companies. Access to credit products that meet their unique needs allows SMEs to invest in expansion programs and use cash resources efficiently and help them overcome the financial crisis more easily. This tailor-made service in credit provision shows a good rapport between financial institutions and SMEs and this goes to support the notion that when products suit the business requirements, chances are that it could result in sustainable development and prosperity.

About 67 percent of the respondents believe that their knowledge on terms of credit has enabled them to make informed financial choices. This observation underscores the sheer significance of financial literacy in the business owners. As soon as SMEs understand the complexities of credit, such as interest rates, repayment schedules, and other significant terms, they will have a better chance to analyze their financing options and make reasonable decisions. This knowledge does not only reduce the chances of financial missteps but their capacity to use credit to expand and stabilize the business as well. Knowledge of credit terms and effective decision making are of the essence to the success of SME environment.

Over half a percentage of the respondents 54% support that the credit policies offered by the banks are facilitating the growth of their businesses. This observation shows that there is an perceived fit

between services that financial institutions provide and the demands of SMEs. Once banks put in place policies that are truly attentive to the plight of the small businesses, they contribute largely to the provision of a suitable environment that can help such businesses to grow. Such support may be in the form of favourable lending education, financial advisory services, and customised credit products, all of which will help to increase the overall financial wellness of SMEs. This kind of alignment brings about confidence and makes businesses more active to approach the financial institutions in order to finance their activities.

Only a high percentage of 73% of the respondents agree that flexibility in credit terms has made them significantly more financially stable. This underscores the importance of flexible financial services on the expansion of SMEs. Businesses will also be able to manage their cash flow better because financial institutions are able to provide them with flexible terms of credit which means adjustable interest rates and repayments which can be adjusted accordingly to the changing conditions in the market. This flexibility enables the SMEs to invest in strategic allocation of resources, investing in growth opportunities, and ensuring that it is stable in the tough times. Therefore, the presence of flexible credit facilities is a crucial factor in discussion of the resilience and sustainability of small and medium-sized businesses against economic uncertainty.

#### 4.2.6 Relationship between interest rates and growth of SMEs

| Statement   | Strongly Disagree (1) | Disagree (2) | Not Sure (3) | Agree (4) | Strongly Agree (5) |
|---|-----------------------|--------------|--------------|-----------|--------------------|
| 1. The current interest rates influence my borrowing decisions.         | 3                     | 4            | 5            | 20        | 20                 |
| 2. Lower interest rates would enable me to invest more in my business.  | 2                     | 5            | 6            | 18        | 21                 |
| 3. High interest rates are a significant barrier to my business growth. | 4                     | 6            | 3            | 15        | 24                 |

| Statement   | Strongly Disagree (1) | Disagree (2) | Not Sure (3) | Agree (4) | Strongly Agree (5) |
|---|-----------------------|--------------|--------------|-----------|--------------------|
| 4. I often compare interest rates from different financial institutions before borrowing. | 5                     | 7            | 10           | 18        | 12                 |
| 5. Changes in interest rates directly impact my business's profitability.                 | 3                     | 5            | 5            | 19        | 20                 |

### Summary of Findings

A considerable 76 percent of the respondents concur or highly concurred that the available interest rates do affect their decisions to borrow or not. This statistic points very clearly to the fact that there is a direct relationship between interest rates and the financial behaviour of small and medium sized enterprises (SMEs). Interest rates have a direct impact on the cost of borrowing when they are changed this will make the business owners think about the way they are going to finance their operations. This effect has the key role in determining financial policies of the SMEs because the high interest rates will discourage borrowing and the lower rates will promote investment to spur growth. The perception of this relationship supports the fact that SMEs should be keenly sensitive to current interest rates in making financial futures.

A massive seventy-five percent of the respondents say they would invest more in their businesses as a result of interest rates being reduced. This feeling highlights the sensitivity of the SME growth to interest rates. The low cost of borrowing leaves businesses with financial room to invest in important sectors like infrastructure, technology and acquisition of talent. Such a possible rise in investment may result in greater productivity, competitiveness and sustainability in the long run. The overconfidence that the growth rate could be driven by the reduced interest rates exemplifies the fundamental role played by ensuring the presence of positive borrowing rates to promote a favorable environment to encourage the growth of SMEs.

About 75 percent of the respondents believe that high interests are a major deterrent to expansion of businesses. Such an impression justifies the general panic about the availability of financing to

SMEs. High interest rates may put businesses off in taking the required loans and in the process this will discourage any expansion initiative and stall the day to day running of the business. Not only do such barriers impact the short-term ability of businesses to finance their requirements but also provide long-term problems of business expansion and survival. The recognition of high interest rates as a great challenge is an indication of how much strategies and policies should be implemented to facilitate more favorable lending conditions to the SMEs.

Some 58 percent of the respondents agree or strongly agree that they tend to compare the interest rates of various financial institutions that show a proactive attitude towards identifying the most favorable financial solutions. Such a behavior also shows how SMEs have realized the need to research and learn about different credit products that are in the market. Through interest rate comparison, business owners can place themselves in a position to make sound decisions which can result to better borrowing terms. This strategy is not only an indication of financial prudence, but also an enabling factor to enable SMEs to have access to funds that match their growth purpose.

Three-quarters of them (75) confirm that their profitability is directly affected by the changes in the interest rates and underline the importance of interest rates on the overall business performance. As interest rates increase or decrease, the effects may be experienced in many spheres of the financial wellness of a business. As an example, when interest rates rise, this may increase the cost of borrowing and in the end this may squeeze the profit margins. Conversely, reduced rates will alleviate such financial pressures and enhance profitability. The identification of the deep relationship between the changes in interest rates and profitability is the reason SMEs need to be careful to observe the changes taking place in the economy and modify their finance plans in such a way that they are able to experience sustainable growth and profitability.

## CHAPTER FIVE

### DISCUSSION, CONCLUSIONS, AND RECOMMENDATIONS

#### 5.1 Introduction

It is a chapter that presents the results of Chapter Four where the role of financial accessibility on the development of small and medium-sized enterprises (SMEs) in Kawempe Division, Kampala is discussed. It describes how a better financial knowledge and resource availability can aid such businesses to perform better and make more intelligent decisions. The chapter attempts to highlight the main findings and provide recommendations to better the financial practices among SMEs. It also identifies the necessity of financial education and easy access to financial resources to facilitate business development and stability of the economies within the community.

#### 5.2 Discussion of Findings

##### 5.2.1 Relationship between financial awareness and growth of SMEs

The results demonstrate the extent to which financial awareness is significant to small and medium-sized business (SMEs).

**Knowledge of Financial Tools:** Approximately 61 percent of participants indicated that they possess a good knowledge of the financial tools that SMEs have. This is significant since it implies that there are numerous business owners who are aware of the way in which these tools can be used to enhance their operations and decision-making. Their sound use of financial tools may make them more successful in business.

**Financial Training Effect:** The effectiveness of financial training among the respondents is noteworthy with 67 percent indicating that financial training has enabled them to make more sensible decisions. This emphasizes the importance of financial education. Whenever the business owners get to know more about finance, they are assured of the decisions they make. This has the potential to result in smarter management of resources and running their businesses in a more strategic manner.

Positive Impact on Business Development: Only 71 percent of the respondents believe that their business has grown as a result of greater financial awareness. This demonstrates that it is necessary to be aware of financial concepts such as cash flow and investments. The knowledge of these concepts by business owners will help them make superior decisions that enhance growth.

Significance of knowing how to budget: 71 percent of those surveyed also say that understanding of how to budget would assist them in controlling their cash inflow. Learning about budgeting will enable the owners of businesses to monitor the income and expenses. This guarantees that they will be in a position to sustain their financial commitments and inject more investments in new opportunities making business more stable.

Proactive Financial Management: Lastly, respondents engaged in seeking financial information to assist in their business decisions is proactive, and 79 percent of the respondents do so. This is a positive move that demonstrates that these SMEs are willing to manage their finances effectively. Keeping in touch with finances and financial practices can help business owners to enhance their planning and decisions. It is a continual process of learning finance that makes them better decisions and introduces a culture of improvement in their businesses.

### **5.2.3 Relationship between credit policy and growth of SMEs**

The paper found that there were a number of important insights obtained about the effects of credit policies on the development of SMEs. Most of the respondents (63%) confirmed that credit application process is simple and easily available. This implies that business organisations seeking financial support would be in need of an easy application process. SMEs are more inclined to get financing when they find the process user-friendly thus increasing their growth potential.

In addition, 67 percent of those who have been interviewed noted that their businesses have been enjoying credit products that are specifically designed to SMEs. This makes it clear why specific financial solutions are needed to meet the special needs of small businesses. Availability of such credit products allows SMEs to invest in expansion programs and better their cash flow.

Moreover, approximately 67 percent of the interviewees said that the knowledge on credit terms has helped them make informed financial choices. This observation highlights why business

owners should have financial literacy. Understanding credit, interest rates, and payment structures will enable SMEs to assess how they can use credit and use the resources to their fullest potential.

Moreover, 54 percent of the respondents responded that the credit policies offered by the banks do help their growth. This implies that the banks create an environment that promotes business development when they adopt supportive policies that put into consideration the problems that SMEs are encountering.

Finally, it is important to mention that flexibility in credit terms was reported to have enhanced the financial stability of a substantial 73% of the respondents. Flexible credit appeals enable SMEs to be able to manage their cash flows and adapt to market shifts which is essential in ensuring that they have the stability to operate and as well as seek growth opportunities.

#### **5.2.4 Relationship between interest rates and growth of SMEs**

The findings regarding interest rates also give precious data concerning their role in the development of SMEs. Only a small majority of 76 percent of the respondents also acknowledged that they lend on the existing interest rates. This is one of the strong signs that the fluctuating interest rates directly influence the manner in which SMEs finance themselves.

Moreover, three quarters of the interviewees indicated that they would spend more on their businesses when the rates of interest dropped. This is a pointer that healthy borrowing is required to support the growth of SMEs since lower costs will accord them the financial way in investing in the critical areas such as operations and innovation.

Conversely, the majority of the respondents gave high interest rates as the primary reason why their business cannot expand. The high rates might scare the SMEs off borrowing money and hence the growth process and its day to day operations. This highlights the need to have policies that would allow the liberalization of lending conditions so that such businesses can keep afloat.

Moreover, half of the respondents often compare the interest rates that other financial organizations have. This initiative character is indicative of the awareness of SMEs towards the determination of the best financial opportunities available to them. By this, the owners of the business will be able to make quality borrowing decisions that will correspond to their growth plans.

Lastly, three-quarters of the respondents indicated that both the profitability of their companies is highly dependant on the movements of interest rates. This relationship is thus vital because it will allow the SMEs to align their financial plans with the current economic conditions to be able to expand and be in a profit position in a sustainable manner.

### **5.3 Conclusion of the Discussion**

In conclusion, credit policies and interest rates are some of the most important factors that affect the development of SMEs. Availability of credit facilities and good interests play a great role towards the financial performance of these businesses. The results indicate that ensuring that credit becomes easily accessible and that the interest rates remain favorable is important in promoting a strong environment by SMEs that finally results in their expansion and sustainability

## REFERENCES

- Abdulsaleh, A. M., & Worthington, A. C. (2013). Small and medium-sized enterprises financing: A review of literature. *International Journal of Business and Management*, 8(14), 36.
- James, M., & William, K. G. (2018). Lending Terms & Financial Performance of Micro, Small and Medium Enterprises in Uganda (A Case of Nateete-A Kampala Suburb). *Small and Medium Enterprises in Uganda (A Case of Nateete-A Kampala Suburb)*(September 9, 2018).
- Peace, K. (2011). Small savings and credit schemes and financial accessibility in rural areas: A case study of Mitaana SACCO in Rukungiri District. Kampala: Makerere University.
- Ambrose, T. (2021). Financial Accessibility and Performance of Small and Medium Enterprises in Kabale Municipality-Uganda (Doctoral dissertation, Kabale University).
- Ambrose, T. (2021). Financial Accessibility and Performance of Small and Medium Enterprises in Kabale Municipality-Uganda (Doctoral dissertation, Kabale University).
- Bajčinca, E. (2015). The determinants of SMEs investments in Kosovo. *International Journal of Multidisciplinary Thought*, 5(03), 523-534.
- Balunywa, W. (2012). Background: Entrepreneurship and Small-scale Enterprise growth in Uganda.
- Belás, J., Mišanková, M., Schönfeld, J., & Gavurová, B. (2017). Credit risk management: financial safety and sustainability aspects. *Journal of Security and Sustainability Issues*.
- Shosha, B. (2014). Profitability of small and medium enterprises in Albania (Focusing in the City of Tirana). *Journal of Educational and Social Research*, 4(6), 546.
- Calice, P., Chando, V. M., & Sekioua, S. (2012). Bank financing to small and medium enterprises in East Africa: findings of a survey in Kenya, Tanzania, Uganda and Zambia.

- Du, X., Luan, W., & Lu, Y. (2022). Impact of economic policy uncertainty and financial constraints on firms' markups: evidence from China. *Applied Economics Letters*, 29(1), 30-34.
- Ambrose, T. (2021). *Financial Accessibility and Performance of Small and Medium Enterprises in Kabale Municipality-Uganda* (Doctoral dissertation, Kabale University).
- Duarte, F. D., Gama, A. P. M., & Esperança, J. P. (2017). Collateral-based in SME lending: The role of business collateral and personal collateral in less-developed countries. *Research in International Business and Finance*, 39, 406-422.
- Engel, E., & Lutz, J. (2013). Micro-finance lending for farming in Congo-a worthwhile risk. *Centre for rural development*, 21(2), 34-36.
- Eton, M., Ebong, C. D., Fabian, M., & Benard, P. O. (2018). *Government interventions in supporting SME growth in Lira district, Northern Uganda*.

## **Questionnaire**

## Financial Accessibility and Growth of SMEs in Kawempe Division, Kampala

Dear Sir/Madam,

I am conducting a study on the financial accessibility and growth of SMEs in Kawempe Division, Kampala. This study is purely for academic purposes, and your responses will be treated with utmost confidentiality. I kindly request you to take a moment to answer the following questions.

### SECTION A: Background Information

Instructions: Tick or write answers in full where applicable.

Gender:

a) Male

b) Female

Age bracket (years):

a) Below 25 years

b) 26-35 years

c) 36-45 years

d) 46-55 years

Level of education attained:

a) Certificate

b) Diploma

c) Degree

d) Masters

Others (specify): \_\_\_\_\_

How long have you been in this business?

- a) Below 1 year
- b) 1-3 years
- c) 4-6 years
- d) 7-9 years
- e) 10 years and above

Position held in the business (tick appropriately):

- a) Owner
- b) Employee
- c) Partner

Type of ownership:

- a) Sole
- b) Partnership
- c) Company

Number of employees:

- a) 1-5

b) 6-10

c) 11-15

d) 16 and above

Number of branches:

a) 1

b) 2-5

c) Above 6

**SECTION B: Relationship between financial awareness and growth of SMEs**

Instructions: Please indicate how you feel about the impact of financial awareness on your business growth.

| Statement   | Strongly Disagree (1) | Disagree (2) | Not Sure (3) | Agree (4) | Strongly Agree (5) |
|---|-----------------------|--------------|--------------|-----------|--------------------|
| 1. I have a good understanding of financial tools available to SMEs.          |                       |              |              |           |                    |
| 2. Financial training has improved my decision-making process.                |                       |              |              |           |                    |
| 3. Increased financial awareness has positively impacted my business growth.  |                       |              |              |           |                    |
| 4. Knowledge of budgeting has helped me manage my cash flow effectively.      |                       |              |              |           |                    |
| 5. I actively seek financial information to make informed business decisions. |                       |              |              |           |                    |

SECTION C: Relationship between credit policy and growth of SMEs

Instructions: Please indicate how you feel about the impact of credit policies on your business.

| Statement   | Strongly Disagree (1) | Disagree (2) | Not Sure (3) | Agree (4) | Strongly Agree (5) |
|---|-----------------------|--------------|--------------|-----------|--------------------|
| 1. The credit application process is straightforward and accessible for SMEs.   |                       |              |              |           |                    |
| 2. My business has benefited from credit products designed for SMEs.            |                       |              |              |           |                    |
| 3. Understanding the terms of credit has allowed me to make informed decisions. |                       |              |              |           |                    |
| 4. Credit policies provided by banks support the growth of my business.         |                       |              |              |           |                    |
| 5. Flexibility in credit terms has improved my business's financial stability.  |                       |              |              |           |                    |

SECTION D: Relationship between interest rates and growth of SMEs

Instructions: Please indicate how you feel about the impact of interest rates on your business.

| Statement   | Strongly Disagree (1) | Disagree (2) | Not Sure (3) | Agree (4) | Strongly Agree (5) |
|---|-----------------------|--------------|--------------|-----------|--------------------|
| 1. The current interest rates influence my borrowing decisions.                           |                       |              |              |           |                    |
| 2. Lower interest rates would enable me to invest more in my business.                    |                       |              |              |           |                    |
| 3. High interest rates are a significant barrier to my business growth.                   |                       |              |              |           |                    |
| 4. I often compare interest rates from different financial institutions before borrowing. |                       |              |              |           |                    |
| 5. Changes in interest rates directly impact my business's profitability.                 |                       |              |              |           |                    |

Thank you very much for your time and cooperation.