

**ACCESS TO MICROCREDIT AND THE GROWTH OF SMALL AND MEDIUM
ENTERPRISES SMES IN UGANDA : A CASE STUDY OF KAMPALA DISTRICT
AND MUKONO**

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**UGANDA CHRISTIAN
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DECLARATION

I NABIRYE LINDA declare that this report is as a result of my own effort and has been presented for any award at Uganda Christian university.

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Date 17.9.2024

APPROVAL

This report has been done under my supervision and submitted to the school of business with my approval as a supervised

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ABSTRACT

It is, therefore, of utmost importance that development of SMEs takes place for growth and proper development in the different aspects of the Ugandan economy. According to the recent report, one of the most major binding constraints for Ugandan SMEs generally is limited access to finance. This thesis explores the effect microcredit availability has on the growth of small and medium-sized businesses. In this respect, studies have taken into consideration the impact of the microcredit system on the two major categories of employment generation and profitability. The paper identified the determinants of credit availability and its contribution towards growth through an integrated approach of questionnaires and one-on-one interviews with the SME owners and financial institutions. The present research is a cross-sectional one; a total sample of fifty respondents consisting of small company owners, credit institution personnel, and customers participated in the present study. For the purpose of this study, the respondents selected were from government agencies. In the present study, questionnaires have been used for data collection.

The ease of access to microcredit facilities has, therefore, been correlated with the growth of small and medium-sized businesses in Uganda. It is also hoped that the owners of small and medium-sized businesses will appreciate the fact that credit facilities have positively contributed to the growth of their companies, and find a solution to the two major challenges-the high interest rates and lack of sufficient collateral-microcredit agencies use in providing credit facilities to SMEs. Since they will be more accessible to microcredit facilities, SMEs will grow more.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

SMEs are, however, a very critical force in the process of economic development for most emerging nations. In Uganda, for example, SMEs contribute more than 20 percent to the nation's GDP, while 90 percent of the private sector consists of SMEs. Ministry of Cooperatives, Industry and Trade, 2021. Most of the SMEs in Uganda are faced, despite being the backbone of the nation, with a great deal of obstacles including but not limited to: poor infrastructure, restrictions in regulations, and limited access to capital. Credit accessibility has become one of the main obstacles in that SMEs usually depend on outsider funding when developing their activities.

For equating the demand and supply of finance, microcredit has been espoused as the magic bullet that would bridge the financial gap particularly faced by SMEs in developing countries. In principle, it is targeted that subsidized financial services are to be supplied to small firms currently not reached by the mainstream banking facilities through initiatives by government programs and MFIs. It is against this background that the study at hand has attempted to investigate the relationship between the availability of microcredit and the growth of SMEs in Uganda, focusing on Kampala and Mukono districts.

The beneficiaries of microcredit from MFIs are the small, medium, and large business people. SMEs were, in fact, the biggest contributors to the economy and currently are considered a cornerstone for future growth. According to the Ministry of Finance, SMEs comprise 90% of the private sector, 2.5 million jobs, and 75% of Uganda's Gross Domestic Product. The SMEs are constrained by low-quality human resources, lack of access to technology and market intelligence, and lack of cash.

It is these constraints in the context of globalization that have limited SME performance. It was in this understanding that the government established the Empowerment Programme.

The environment may be favorable to facilitate the performance of the private sector companies. These have been liberalized in the form of exchange rates, tax incentives, and deregulation of interest rates. The commercial sector also lacks easily accessible microcredit facilities.

We are going to analyze the barriers of access to microcredit facilities that impede the growth rate of small and medium enterprises. This enabled us to understand better various barriers that impede access to such a facility and its determinants.

1.2 Statement of the Problem

The growth of the SME sector in Uganda is believed to be fueled by microcredit. It is important to understand how the availability of microcredit affects the expansion of SMEs. The objective of this study was to establish whether the availability of microcredit affects small- and medium-sized business enterprise expansions. However, this inaccessibility to microcredit as a binding constraint addressed by the entrepreneur entailed collateral requirements, interest rates, assessment, and comparison of the financial proposals. Without improvement of this problem, it is likely that the SMEs would proceed over cash flow difficulties and have budgeting challenges..

1.4 Purpose of the Study

The purpose of the study will be to ascertain the accessibility of micro credit and to establish the relationship between access to micro-credit facilities and the growth of small and medium enterprises in Uganda.

1.5 Objectives of the Study

To determine the accessibility of micro-credit to small and medium enterprises in Uganda

To determine the growth rate in SMEs accessing micro-credit facilities in Uganda.

The association between access to microcredit and growth of SMEs can be established.

1.6 Research Questions

To what extent does microcredit exist in Uganda, particularly as it pertains to small and medium-sized

businesses?

At what rate is Uganda growing in terms of SMEs getting microcredit?

What is the relationship between SMEs expansion and access to microcredit?

1.7 Scope of the Study

The target for research is SMEs based in Mukono and Kampala. For the purpose of this study, SMEs based in Mukono and Kampala were targeted because these two districts are highly concentrated with microfinance institutions and SMEs. The research is targeted from 2023 to 2024.

1.8 Significance of the Study

This paper concludes that microcredit helped in growing the SMEs in Uganda. The information is useful in designing more efficient financial policies and strategies in fostering growth of small and medium-sized enterprises. The findings add to the body of knowledge already available on the subject of SMEs' access to microcredit in Uganda through the creation of the framework, which guides the dissemination of information on the same. The study widens the researcher's knowledge and understanding of the accessibility of microcredit, which would serve in facilitating her pursuit for a business administration degree course at Uganda Christian University.

CHAPTER TWO

REVIEW OF RELATED LITERATURE2

2.1 Overview of SMEs in Uganda

SMEs are highly contributory to Uganda in terms of employment creation and poverty reduction. According to statistics from the Uganda Bureau of Statistics, SMEs account for over 90% of the private sector and provide over 2.5 million people with employment. In fact, most such enterprises remain small, unable to scale up mainly because of financial constraints.

2.2 Micro-Credit and Its Role in SME Development

Microcredit is a type of small loan availed to individual people or a business. As a financial instrument, it has gained widespread acceptance in developing economies. In Uganda, MFIs have considerably proliferated over the years with the aim of reaching out to underbanked sections of the population, including owners of SMEs. According to Kasekende & Opondo, 2020, microcredit provides SMEs with the necessary working capital required for expansion or to raise their production capacity.

2.3 Access to Finance for SMEs

Fundamentally, access to finance has always been one of the major issues concerning SMEs in most parts of the world. For instance, in Uganda, SMEs find it quite hard to secure loans from commercial banks because of the latter's stringent requirements regarding loans, collateral, high interest rates, and complicated procedures of application. MFIs are flexible, hence tailor their requirements in line with the needs of small businesses. Unfortunately, high lending rates, inadequate amounts, and short periods for debt repayment still constitute a challenge to the SME sector in Uganda.

Factors Affecting Access to Micro-Credit for SMEs

There are various factors that affect the accessibility of micro-credit to SMEs in Uganda. These include:

- The major ones entail: • Collateral Requirements: Most SMEs are usually devoid of collateral

security required for securing credits, hence making it tough for them to gain access to credit facilities.

- • Interest Rates: High interest rates charged by the microfinance institution itself are a factor that deters SMEs from borrowing.
- • Credit History: Most of the SMEs have a poor credit history and in other cases do not exist at all. This therefore makes it difficult for them to get loans both from the formal and informal institutions, as noted by Kasekende (2003).
- • Financial Literacy: The owners of small and medium enterprises are relatively at a very low level of financial literacy. It discourages their potentials to get access to and make effective use of credit.

2.4 Information gaps

Projects are hard to evaluate because of the problems associated with information inefficiency, and that is one of the reasons access to capital is not solely due to size. It is the other way round: credit accessibility is accelerated by the availability of financial information.

Based on this evidence, the authors conclude that a relationship with an institutional lender increases the availability of finance for small business and to a lesser degree that those relationships reduce the cost of borrowing.

According to Cole in 1998, “lenders that have a relationship with the borrower are more likely to extend credit.

The discussion in Vienna in the year 2000 made it clear that the actual size and character of financing gaps are not known due to poor keeping and reporting by financial institutions. In this respect, it is also highly important that the owners of small and medium-sized enterprises would maintain proper books of account to reveal their willingness to develop a relationship with the lender.

2.5 Financial Intermediation Theory

This theory describes the role of the financial intermediary mechanism, banks or micro-credit

institutions, in facilitating resource allocation between savers and borrowers. Drawing on this theory, it is seen that the micro-credit institution reduces the transaction cost of the SMEs; they have relieved the information asymmetry while accessing credit facilities in a more fruitful manner.

2.6 Pecking Order Theory

It explains that firms prefer internal financing over external borrowing, and when internal funds become inadequate, then firms seek external finance, but debt is a preference over equity. This was proposed by Myers and Majluf in 1984. In the context of SMEs, microcredit is a form of alternative access to finance that supplements bank loans, especially where such bank loans are hard to obtain.

2.7 Empirical Review

Several researches have revealed the association of access to microcredit and growth of SMEs. For example, Akoten et al. 2006 mentioned that access to microcredit in Kenya had considerably boosted the productivity and profitability of SMEs. Similarly, Nuwagaba and Nzewi 2013 observed that microcredit improved the capacity of SMEs in Uganda to invest in business expansion and technology. However, it also commented on how high interest rates and tight repayment terms faced adversity in realizing the full potentiality of microcredit for SME growth.

In the case of Uganda, Nabukeera, 2020, explored the effect of microcredit on the women SMEs in Kampala and found out that microcredit had been instrumental in helping women entrepreneurs start up and expand their enterprises. The study noted that in spite of this, there was still a need to further the regulatory framework in terms of protecting the borrowers from abusive lending practices.

Definition of small and medium-sized enterprises (SMEs)

Burns defines an SME as an organization that employs between one and ten people, is owner- or co-owner-managed in a personalized way rather than through a more formally developed management structure.

Balunywa adds that small enterprises are usually sole proprietorships, where ownership and the business are hardly differentiated and are legally owned by one person who is also the owner with unlimited liability and control over the enterprise. It is the owners of such small and medium-sized businesses that are the major beneficiaries of credit facilities from microcredit institutions. It is characterized by an

annual turnover of less than fifty million on average. VAT is payable on an annual turnover of \$0.000,000. This leads directly into the second crucial aspect: it is relevant to understand exactly what is meant by applying the definition of PMI.

Sources of finance for SMEs

The common shares IPO, promoter contributions, and savings of individuals finance the capital structure of an entity. Shekhar (1999) links debt and equity as the two most major sources of external finance. These can be specifically designed to meet the fixed capital expenditure requirements of the company as well. According to Clement et al. (1997), the owner-manager may decide to finance the small firm himself, using savings or an equity loan secured by his house and/or other assets. In addition, the relatives are also able to provide loans, but the owners are the topmost owners. According to Byaruhanga (1998), formal banks remain the most important sources of loanable money to enterprises. Access to credit services is very important for the expansion of SMEs in Uganda, irrespective of sources of finance.

Definition of growth

Growth is basically the act of growing in size. In this context of case study, the definition of growth is considered as a determinant for strength and success of business. Growth of a company symbolizes the development achieved by the company, which gets manifested through: the economic quantities explaining the growth of its activity, the changes that occur in the economic structure and organization. (World Economic Forum, 1996), even though growth creates savings, in itself it is an indicator of the dynamism of a company's behavior and it measures its capacity to extend its commercial, financial and technological opportunities. (Global Competitiveness Report, 1996). Growth also wastes resources and raises the demand for investments and funds for their financing (Guarnizo, 1996). Depending on factors like the liquidity yielded, internal financing policy, or its financial structure, every company has a certain capacity for financial growth. In this regard, the concept of sustainable growth is an important tool from the management viewpoint.

The scope of growth of small enterprises

Business management has often been solely judged by growth and creation of financial value, but this has often been the case especially for small businesses in developing countries (Mouritsen 1998).

Business growth is considered as an indicator of success given that it is a sustainable way of measuring business performance since business is often viewed as a long-term activity.

Small firms' performance can be measured by profitability, sales growth, number of customers, or even the number of employees. However, growth is an outstanding success variable for a number of reasons that include:

First, it is the growth which is a significant aspect of economic strategies towards the creation of newer job opportunities and wealth. Indeed, as Carson et al. (1995) and Hodgelts and Ituratko (1995) have said, the multiplier effect of such a process is very relevant. The second one is the fact that most SMEs use growth indicators, such as sales growth and customer volume, to accomplish a strategic objective of the company more reliably than profit indicators (Hudson et al., 2001). According to Borre et al (1995), one of the key features that distinguish the really successful enterprises from less successful ones is their growth commitment. However, the growth of business enterprise is also a complicated process since most enterprises experience growth in their first years but later scale to a growing level (Burns, 1994). SME growth indicators Long-run business objective

Indicators of growth Of SMEs

Several viewpoints on how "growth" might be perceived in PMI include the following:

The profitability of the company

Stoner, 2001, explains that profitability is the excess of income over expenses and can be expressed by such ratios as for example gross profit margin and net profit margin. The companies' profitability has been mainly used as indicator of growth among SMEs in spite of Lucey, 2000, though some studies still reveal that it is an ambiguous measure because people can perceive it differently.

Accountants are a case in point who view earnings differently from the economists' perspective (Pandey, 1999). However profitability measures the financial strength of the company which gives it a competitive advantage and accelerates the sustainable growth of SMEs.

Turnover of the company

It refers to the total of goods sold in a given period usually expressed in monetary terms (Pence, 2000). Revenue growth puts the business in a better position for sustainability and growth, and most small business owners at least use sales growth as a reliable indicator of the growth of their business. (Penn et

al., 1998).

Market share of an enterprise

This is one of the major long-term goals of many companies. At the initial stage, many businesses start on a small scale with a narrow market base. However, the growth can be well reflected by an increase in market share.

Market share, according to Kulzik, 2002, is defined as the “the ratio between a company’s total market share and sales and total market sales.

Other strategies can also be utilized by SMEs in maximizing market share. The most common is the focus on a country and redefining its potential. This growth indicator can further challenge competition for continuous growth among SMEs.

Continued growth amongst SME’s.

Number of employees in an enterprise

Increasing number of employees, whether skilled or unskilled labor, would mean the growth of the business. According to Burn (1996), a small firm could employ one up to ten people. But it varies from country to country. For example, the Ministry of Finance in Uganda believes that a business can already be considered a SME if its employment ranges between 20 and 100 people. The foregoing signal can be complemented with the firm’s production capacity, that is bound to go up because of its expanding operations and thus necessitating an increase in the labor force in the firm. Relationship between growth of SMEs and Microcredit access Many researchers have undertaken research and literature currently published suggests that there exists a link between growth of SMEs and accessibility of microcredit.

Previous research has also established the fact that the ability of a firm to identify credit facilities and maximize their use is what helps to ensure its financial and operational growth is feasible in a sustainable manner. To retain control of their businesses, some small businesses, however restrict the level at which they issue outside cash.

Access to financial funding remains the single most important form of external support needed for SME growth, in general, and for those in developing countries, in particular (Cook, 2002; Mac Mahon, 2001).

As Levy, 1993, points out, “SME growth is hampered by inadequate access to financial services.” Credit, therefore, is a development instrument which fosters the growth of businesses of all sizes.

Previous works also emphasize the problem faced by SMEs in accessing external credit, such as insufficient guarantees, interest rates, and financial information standing in the way of business development.

Conclusion

Credit access is important for all companies, regardless of size-small, medium, and large-but small and medium-sized enterprises deserve access most of all, especially if they want to grow in a sustainable manner. Microcredit services can help small businesses raise capital, continuously invest in activities that create jobs, and thus reach their growth objectives.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter fully presented the research design, sampling design, research strategy, and procedures. It was also presented in what ways the data would be collected; from which sources the data were retrieved; what tools were adopted; how the data analysis and presentation were made; and the limitations of the study.

3.1 Research Design

The researcher employed longitudinal research design to establish the performance of enterprises prior to and after credit facilities. He used quantitative methods to analyze the rate of growth in the sales volume, number of employees, and profitability of the enterprises.

3.2 Area of the study

The study was conducted in Uganda. The study area was chosen due to the fact that Uganda has many microcredit institutions and is also home to many small and medium enterprises.

Consider a population study in which. This researcher obtained data from small industries that were in the form of market sellers in Kiko, Crane shoes, and their managers as well as support staff, people engaged in production, retailers and wholesalers, restaurant owners, hoteliers, small construction companies, and governmental agencies.

These include the Uganda Small Scale Industries Association and the Uganda Investment Authority, all of which provided relevant information on the overall growth rate of small scale industries, the total

population assimilated by the respondents, and how this is allocated to the prevailing microcredit institutions. In Uganda.

3.3 Sampling Methods

A total of 50 (fifty) respondents were selected as the sample size from the survey population for this study. There are a number of different sampling methods in use. However, the researcher in this present study focused on just a few, of which included;

Stratified sampling

Stratified random sampling involves the division of the target population into several strata, each comprising SMEs from different enterprise categories. This enhances validity and reliability in the collection of data.

Purposive sampling

The researcher will purposively select staff handling credit from credit departments and their clients of a random sample of lending institutions, since they are in a better position to provide information pertinent to this study.

3.4 Data Sources

The sources include both primary and secondary data.

Primary data

.The data were collected from various respondents through a questionnaire, which includes employees of credit departments in the randomly selected lending institutions, interviewing their clients, and business.

Such data is first hand data, collected exclusively for the purposes of the study in question, by its owners.

Secondary data

Secondary data was obtained from existing literature, such as the annual report from USSIA and other business reports from selected SMEs and government departments such as UIA. The secondary data sources also entailed getting information that was collected by other researchers but was in line with this particular study; that is to say, from the internet.

3.5 Data Collection Tool/Methods

The researcher used numerous data collection methods and below are some of them;

Questionnaires

Semi-structured questionnaires were administered by the researcher, who distributed them and, after one week, went back to collect them, while for those who found difficulties in reading and writing, she asked them questions as she filled the questionnaires. The questionnaires had both open and close-ended questions.

In depth interviews

This information was retrieved through deep conversations and interviews with those who had offered her their time away from their busy schedules. This has also helped the researcher in creating good relations with business owners from the field.

Desk review

It has involved revising documentary records such as enterprises' financial reports, manuals, and journals. The researcher consequently visited libraries so as to beef up the available literature concerning the study, while providing explanations for observed patterns of the variables.

3.6 Data Processing and Analysis

Data processing

The researcher reviewed and rechecked the collected data for potential errors and omissions. Follow-ups on field questions with unreturned answers were tracked and updated accordingly. Data were also coded and categorized to allow the researcher to come up with frequencies and percentages for obtaining valid and reliable information.

Data analysis

Data analyzed were subjected to processing using frequency distribution tables, mean, standard deviation, and percentages. The researcher used tallies to obtain frequencies and contributions in percentage terms. The mean and standard deviation were solved from Excel and brought into Word to show only the work done.

This helped the researcher to make conclusions in relation to the variables of the study, for example, the use of Pearson's rank correlation will help to determine the degree of relationship that exists between variables.

Limitation of the study

Financial problems in the form of transport costs from Mukono to Kampala to travel to collect information.

- Bad weather, for example, on rainy days the movement to collect data was not easy; on other days, there were under scorching suns where travel was uneasy.

- Language barrier: some of the managers, for example, in markets, hardly knew English and Luganda; it was not easy getting information from them.

- The biased way in which the respondents interpreted the study objectives led to data bias. This could make some of the data unrepresentative and loss credibility to a wide generation. The lack of time can also have consequences in the study, both on the part of the respondents and on the part of the researcher. This limitation also prevented an in-depth study of the variables. Nevertheless, the research team tried to surmount this problem by actually visiting the respondents during scheduled meetings.

CHAPTER FOUR

PRESENTATION, INTERPRETATION AND DISCUSSION OF FINDINGS

4.0 Introduction

This chapter encompasses the data collected at the ground level, its interpretation, and discussing the results. The aim of the research is to find out the effect of microcredit availability on the growth of SMEs in Uganda. In pursuit of attaining the above-mentioned aim, the information was retrieved through questionnaires and interviews from different SME respondents in Mukono and Kampala. The findings were then analyzed using frequency, standard deviation, and mean tables.

Gender of the respondents

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

Source: primary data

While the above data shows that men were easier to contact for information and more involved in SMESs than women, it also reveals that 70% of the respondents were males and that they gave more information than the female respondents who provided roughly 30% of the information.

4.1 Age of the respondents

Table: Showing the age of the respondents

Response	Frequency	Percentage (%)
Less than 25 years	5	10
26-33 years	8	12
34-41 years	12	28
42-49 years	10	20
50-57 years	10	20
58 years and above	5	10
Total	50	100

Source: primary data

Table 1 shows that 10% of the respondents fall in the bracket of 25 to 33 years, 12% fall between 26 and 33 years, 20% between 42 and 57, while 10% fall between 58 and 60. It therefore follows that participation of the middle-aged in business activities is increasing. Mainly, this is because the old and middle-aged have earned the resources, and they can use them as collaterals to get loans from microfinance organizations.

Educational levels attained by the respondents

The respondent's education background is as illustrated below;.

Table 2: showing educational levels of the respondents

Response	Frequency	Percentage (%)
Primary	0	
Secondary	2	4
Tertiary	18	36
University	22	44
Others	8	16
Total	50	100

Source: primary data

The results of the table above indicate that 44% of the respondents had attended university, 36% attended higher education, 16% attended other places, and 4% had attended secondary school. This can define how educated and scholarly the greater part of the responders were.

Table 3: Showing the types of business undertaken

Response	Frequency	Percentage (%)
Sole proprietorship	28	56
Partnership	10	20
Corporate	4	8
Others	8	
Total	50	

Source: primary data

The table reveals that, as a percentage of the total sample, about 56 percent of respondents were the owners of businesses alone, hence more into solo ventures, while 20 percent were in partnership with others; 16 percent had started other companies, and 8 percent decided to become entrepreneurs. This clearly shows that the majority of the respondents granted loans are individual business owners as opposed to corporate entities, and further depicts the lending institution's interest in those operating their businesses for security

purposes.

Respondents were asked how long their business has been operating and the results are presented in the table below:

Table 4: Showing the period of existence of business enterprises

Response	Frequency	Percentage (%)
0-5	0	0
6-10	16	32
11-15	30	60
16 and above	4	8
Total	50	100

Source: primary data

From the table above, it can be seen that 60% of the respondents operated their businesses between 11 to 15 years, 32% had operated businesses between 6-10 years, while 8% of the businesses have been in operation for over 16 years. This infers that most of these people were able to access microloans from microfinance institutions after they could prove that their businesses were in operation for such periods of time that could sustain themselves for many more years.

Turnover of the enterprises

Table 5: Showing the monthly turnover of the business using mean

Response	Frequency	Percentage (%)
Less than 2.3	16	32
2.3-4.5	14	28
4.5 — 6.8	12	24
6.8 and above	12.5	25
Total	50	100

Source: primary data

From the above table, 32% represents less than 2.3 million monthly turnovers, 28% monthly turnovers are between 2.3 and 4.5 million shillings, while 24% represents between 4.5 and 6.8 million shillings, and

16% represents above 6.8 million shillings. It can be deduced from this that the majority of SMEs have a commendable turnover to aid in sustainable development.

4.2. The Number of workers employed by the business

The study showed us the number of workers that the businesses hired to perform various tasks as in the table below using standard deviation

Table 6: Showing the number of employees in the enterprise

Response	Frequency	Percentage (%)
Less than 10	14	28
11-20	20	40
21-30	12	24
31 and above	4	8
Total	6.608076	13.21615

Source: primary data

Above Figure illustrates that 28% of total respondents had less than ten employees, 40% from eleven to twenty workers, 24% between twenty-one to thirty workers and 8% between thirty and so on. From the employees' level, one can estimate there is growth in small and medium-sized businesses even though these enterprises might have existed for 11 to 20 years.

Findings on the access to micro-credit for small and medium enterprises in Uganda

Source of business

This was to establish whether microfinance institutions demanded the major source of SMEs business capital, and the extent to which SMEs rely on credit facilities for growth. This was found out as in the table below.

Table 7: Type of loan sought from lenders and SMEs access to credit facilities

Response	Frequency	Percentage (%)
Strongly agree	15	30
Agree	23	46
Not sure	0	0
Disagree	10	20
Strongly disagree	2	4
Total	50	100

Source: primary data

In this regard, the chart above shows that 46% of the respondents agree to the statement that usually loans type issued to borrowers determine whether they can access credit facilities, and end up using it. In this light, 20% disagree, while 4% strongly disagree, 30% strongly agree. According to the respondents who strongly agree and those who disapprove, lenders have tried to issue money to SMEs. The ‘opposite’ and the ‘strongly opposite’ to this survey either have not tried applying for these loans yet or may have been past credit users who obtained credit without a valid business strategy.

Security of Collateral Requirements of SMEs

Business plans are given to their lender.

The researcher found that the business information that small and medium-sized businesses give to their lender is reliable.

Response	Frequency	Percentage (%)
Strongly agree	08	16
Agree	12	24
Not sure	0	0
Disagree	18	36
Strongly disagree	12	24-
Total	50	100

Source: primary data

Although 40% of its respondents agree with this statement, the majority of the respondents do not agree with the idea of providing realistic business plans to their lender. It has altogether 60 in it. Perhaps, this is one of the reasons why some companies are not given loans by lending institutions.

The employees in the SME have financial and managerial expertise.

The researcher has to identify whether SMEs employs managers who can assist them in acquiring credit facilities from the lender.

This is shown in the table below.

Table 11: Showing whether management of SMEs has adequate managerial skills

Response	Frequency	Percentage (%)
Strongly agree	12	24
Agree	6	12
Not sure	10	20
Disagree	13	26
Strongly disagree	9	18
Total	50	100

Source: primary data

Table above, 24%, strongly agree, 12% agree and 20% were not sure, while 26% disagree and 18% strongly agree. Therefore, from these figures, 44% of the respondents who do not strongly agree to the question lack adequate managerial and financial skills which have kept the majority of them from acquiring credit. The remaining 36% of the respondents are those who have access to credit.

4.3 Keeping of financial information among SMEs

The researcher wanted to find out on the proper keeping of financial information that assists lenders while assessing the viability of SMEs and the following were the responses.

Table 12: Showing findings on whether enterprises keep proper financial information

Response	Frequency	Percentage (%)
Strongly agree	7	14
Agree	9	18
Not sure	4	8
Disagree	17	34
Strongly disagree	13	26
Total	50	100

Source: primary data

From the above table, 14% strongly agree, 9% agree, 80% are not sure, 34% disagree, and 26% strongly disagree. Thus, basing on the results in this question, it can be observed that 60% of the respondents; 34% plus 26% cannot access financial information that the borrowers can use to assess their sustainability and may be one of the reasons why they are not being awarded credit. It is also in agreement with what Scholtens said, “Besides magnitude, lack of information about the projects affects access to financing.

Table 13: Showing findings on whether SMEs negotiate for the lending rates

Response	Frequency	Percentage (%)
Strongly agree	00	00
Agree	06	12
Not sure	12	24
Disagree	18	36
Strongly disagree	14	28
Total	50	100

Source: primary data

Results in the table above show that 12% agreed to negotiate the interest rates, 24% were not sure, while 36% disagreed and 28% completely disagreed. This means that a majority of the respondents were not given an opportunity to negotiate the interest rates, adding up to 64% who said so; this also means that at times the rates may not be in favor of these SMEs for access to credit, while the minority said they do have an opportunity to negotiate at 12%. The rates of payment are those who have access to credit. This may be the reason why most companies do not expand because they do not have enough capital.

Response on whether lenders inform SMEs about their new products

Table 14: showing whether lenders inform SMEs about their new products

Response	Frequency	Percentage (%)
Strongly agree	04	08
Agree	01	02
Not sure	05	10
Disagree	22	44
Strongly disagree	18	28
Total	50	100

Source: primary data

The table above shows 28% strongly disagree, 8% disagree significantly, 2% agree, 10% not sure, and 44% disagree. Considering the fact that the majority do not know about new products being provided by lenders, such as special loans for the owners of small businesses, 10% out of those who agreed said yes. It is also likely that SMEs, being unable to qualify for certain loans or other credit terms that are favorable, are not in a position to access the platforms that lenders use to advertise these products, an indication of the low percentage of SMEs that blame credit.

The study findings on the loan sizes usually extended to SEMS were as illustrated in the table below.

Table 15: showing on the size loan

Amount shillings	Frequency	Percentage (%)
Up to 400,000	07	14
410,000-700,000	12	24
710,000-1000,000	30	60
1000,000 and above	01	02
Total	50	100

Source: primary

Information from the table above indicates that 14% can be qualified to a loan of up to \$400,000, 24% from \$400,000 to \$700,000, 60% from \$70,000 to \$1,000,000, and 2% or over. This shows that the

majority or 60% qualify for loans ranging from \$710,000 to \$1,000,000, which is not sufficient enough to ensure the continued growth of small and medium-sized businesses. This could also explain why most SMEs fail to access bigger loans even when they provide sufficient collateral.

4.4 The contribution of micro credit facilities to the growth of SMES

The researcher should find out whether loan facilities are a strong contributor to SMEs growth, and the results acquired are displayed in the table below.

Table 16: showing response on whether credit has strongly contributed to growth.

Response	Frequency	Percentage (%)
Strongly agree	20	40
Agree	12	24
Not sure	04	08
Disagree	09	18
Strongly disagree	05	10
Total	50	100

Source: primary data

According to the results in Table 16 above, 40% of respondents fully agree that access to microcredit mechanisms has contributed greatly to the growth of their businesses, 24% agree, 8% are not sure, 18 % agree and 10 strongly disagree. This would mean that most SMEs have access to credit to fuel such growth.

Response on whether SMES re- invest on profits.

Table 17: Showing whether SMES re-invest on profits

Response	Frequency	Percentage (%)
Strongly agree	00	00
Agree	10	20
Not sure	02	04
Disagree	28	S6
Strongly disagree	10	20
Total	50	100

Source: primary data

From the above table, 20% of the total respondents agree that the SMEs reinvest their profits, 4% strongly agree while 56% disagree and 20% strongly disagree. Consequently, the 20% of the respondents who invested their returns are the minority and the 76% of the respondents who disagreed (20% + 56%) are not. The majority of the respondents who agreed that most of the capital came from loans could explain this. The increase in the number of employees in SMEs Data related to the trend of SMEs' employees level related to their growth regarding hiring more available laborers was collected by the researcher.

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The following were the findings.

Table 18: Showing whether the number of employees has increased

Response	Frequency	Percentage (%)
Strongly agree	00	00
Agree	10	20
Not sure	06	12
Disagree	24	48
Strongly disagree	10	20
Total	50	100

Source: primary data

From the table above, 20% agreed that there are more employees, 12% were not sure, 48% disagreed, while 20% strongly disagreed. Thus, it indicates that 68% of the majority of the respondents who intended to hire more people did not hire, and might help explain why the majority of the SMEs have not grown and are still running at a low level. Averaged out, but those that agree may be those whose growth rates have been very high on account of personnel increase.

Comments on whether SMEs received more orders from existing customers

Table 19: findings on the number of orders from existing customers

Response	Frequency	Percentage (%)
Strongly agree	18	36
Agree	12	24
Not sure	06	12
Disagree	09	18
Strongly disagree	05	10
Total	50	100

Source: primary data

From the table above, results show that 36% strongly agree, 24% agree, 12%, not sure, while 18% agree and 10% strongly agree. This shows that the higher percentage of those who agree has seen an increase in orders from their customers, meaning growth for SMEs, while a smaller percentage of 28% have not witnessed an increase in its customer base, which may indicate low growth.

Table 21: showing the relationship between access to micro credit and the growth SMES

Response	X	Y	Rx	Ry	D—Rg-Rv	p ²
strongly agree	16	20	2	1	1	1
Agree	28	16	1	2	-1	1
not sure	4	12	3	3	0	0
Disagree	2	0	4	5	-1	1
strongly disagree	0	2	5	4	1	1
						Ed ² 4

Source: primary data

From the expression $R = 1 - \frac{6Ed^2}{n(nZ-1)}$

$R = 1 - \frac{(6 \cdot 4)}{5(52-1)}$ $R = 1 - \frac{24}{120}$

$R = 1 - 0.2$ $R = 0.8$

The above result indicates that the access of microcredit and growth of small and medium enterprises are closely positively related. Therefore, its R is approximately 0.8, meaning a strong relationship; thus, access to microcredit can be one of the best ways small and medium enterprises can transform their fall.

CHAPTER FIVE

SUMMARY OF MAJOR FINDINGS

5.0 Introduction

A summary of the conclusion, recommendations, and suggestions is done briefly in this chapter. Also, the findings that were drawn from the main study were based on these, while others were derived from past studies.

Overview of Key Findings

5.1 Summary on SMES access to micro credit facilities

As it is supported from the empirical evidence of this study and by other publications included in this report, SMEs have the potential to heavily contribute to the economy; however, their actual capacity to reach further and additional desirable levels of performance is constrained because they cannot access microcredit methods. It was also established from the findings of this study that a combination of factors, which included interest rates that were non-negotiable, poor information dissemination, a high percentage of the SME owners lacking managerial and financial skills, absence of guarantees to ensure loan recovery for the borrowers, as well as interest rates that were non-negotiable, had conspired to prevent SMEs from gaining access to credit. Presumably, it would therefore be correct to state that the findings generally hold true for the entire nation..

5.2 Summary on the growth of SMEs

Microcredit facilities' availability encourages the growth of SMEs in Kampala and Mukono. A number of issues such as exorbitant interest rates, collateral requirements, and unduly complicated loan application processes are some factors that limit SMEs' access to these facilities. Results indicate that the growth aspects of various SMEs are dictated by their respective access to microcredit facilities. Most SMEs that access microcredit facilities easily usually have high and strong productivity levels, increasing client chum, and a client volume that rises accordingly. Credit hence forms the significant ingredient of the development

strategy adopted by most SMEs.

Summary of findings on the relationship between access to micro credit and the SME's Growth.

The results of the study showed that access to microcredit and the growth of SMEs are positively related, as shown by the correlation coefficient of the rank of 0.8, which means that access to the microcredit of SMEs increases, the more the rate of their growth. The results are consistent with the study of Ferry, 1998, which states that limited access to financial services for SMEs slows down their growth.

conclusions

5.3 Conclusion on SMES' access to micro credit facilities

Researchers here feel that factors limiting access to microcredit facilities, with regard to interest rates and collateral requirements, need a detailed look with a view to evolving relevant policies to improve productivity of small firms.

This will increase access to microcredit facilities, hence increasing overall affordability for business growth.

5.4 Conclusion on the growth of SMEs

The findings of the research revealed that access to credit facilities by SMEs had a great impact on their potential growth in terms of output, number of employees, and volume of sales. It also confirmed that most SMEs finance their start-up capital fully or partially from credit institutions, implying that the loan amount extended affects the growth of SMEs. Conclusion on the link of SMEs' growth and their access to microcredit. The owner of the IMP must avail himself of every opportunity for bank facilities and so accelerate the growth of the firm. In this manner, the SMEs of today and the ones in the future stand to bridge the "banking gap" apparent in the level of company performance.

5.5 Recommendations

1. Reduction of Interest Rate: Financial institutions should discuss the mechanisms for reducing the interest rate on micro-credits.

This will make it more accessible and affordable to the SMEs.

2. Learning Procedures in Loan Applications: Microfinance institutions should simplify their loan application procedures so as to allow SMEs easily access credit.

3. Capacity Building: There is a need for programs of financial literacy for SMEs in order to enhance their capacity to understand the credit application process.

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Appendices

This is academic research focused on assessing access to microcredit and the growth of SMEs in Uganda. It is carried out in partial fulfillment of the Bachelor's Degree in Business Administration at the Uganda Christian University. This therefore calls for the importance of the study, as your opinion plays a great role. Information provided here will be used for academic purposes only and treated as confidential. You are required to check the option concerning you. Thank you so much in advance for your cooperation and time.

SECTION A: BACKGROUND INFORMATION.

1. Gender

Male

2. Age of respondent

18-25

26-

34-41

33

42-49

50-

58 and above

57

3. Education level.

Primary

Secondary

Certificate Diploma or Degree

Professional

None

4. Type of the
business

Sole trade

Part
ners
hip

Cooperative

Others (specify).....

S. For how long has the business been in operation?

0-5years 5-10years 10 15 years 20years and above

What is the appropriate monthly turn over? (M- Millions)

Less than 2.3 m 2.3m to 4. Sm 4.Sm to 6.8m

6.8m and above

How many workers does your business have currently?

Less than 10 11-20 21-30 3land above.

SECTION B

Please respond to the following statements by indicating the extent to which you agree or' disagree on the provided scale.

Our lenders comprise a biggest portion of our source of business capital.

Strongly Disagree	Disagree	Not sure	agree	Strongly agree

The type of loan we usually seem from our lenders (working capital, term loans) determines our success and uptake to credit facilities.

Strongly Disagree	Disagree	Not sure	agree	Strongly agree

We have acceptable collateral which makes our projects accepted by the lenders.

Strongly Disagree	Disagree	Not sure	agree	Strongly agree

We give realistic business plans to the micro institutions.

Strongly Disagree	Disagree	Not sure	agree	Strongly agree

We keep proper financial information that can assist lenders in assessing our viability.

Strongly Disagree	disagree	Not sure	agree	Strongly agree

We negotiate with our lending institutions about the rates.

Strongly Disagree	disagree	Not sure	agree	Strongly agree

Lending institutions inform us about their new credit products.

Strongly Disagree	Not sure	agree	Strongly agree

What is the size of the loans usually extended to you? (Circle the appropriate range)

(a) up to sh. 400 000 (b) 410 000- 700 000(c) 710 000- 1000 000 (d) IM and above.

SECTION C: GROWTH OF SMEs.

Please answer by ticking on the options to what extent micro loans have managed to bring growth onto our businesses.

Strongly Disagree	disagree	Not sure	agree	Strongly agree

We have been able to expand on our business since we acquired the micro loans.

Strongly Disagree	disagree	Not sure	agree	Strongly agree

The business has been able to invest back its profits

Strongly Disagree	disagree	Not sure	agree	Slightly agree

Our workers have been increasing ever since the business started.

Strongly Disagree	disagree	Not sure	agree	Strongly agree

more orders coming in from existing customers

Strongly Disagree	disagree	Not sure	agree	Strongly agree

The employees have been able to bring in creative ideas into our businesses

Slightly agree	disagree	Not sure	agree	Strongly agree

The number of our customers has also increased steadily.

Slightly agree	disagree	Not sure	agree	Strongly agree

The number of new suppliers has increased rapidly.

Slightly agree	disagree	Not sure	agree	Strongly agree

SECTION D RELATIONSHIP BETWEEN ACCESS TO MICRO- CREDIT & GROWTH AND SMEs

Good relations between our lenders (micro credit institutions) and our enterprise has enabled us grow.

Slightly agree	disagree	Not sure	agree	Strongly agree

God bless you