“CREDIT ACCESSIBILITY AND GROWTH OF SMES IN UGANDA: A CASE OF MAKINDYE MUNICIPALITY”

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UGANDA CHRISTIAN UNIVERSITY

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DECLARATION

I Mbabazi Amelia hereby declare that this research report has been produced out of my own effort with the guidance of my supervisor and has never been submitted to any other institution for any award.

Signature....Amelia:........................... Date...06...../.....6........./..2026...

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APPROVAL

This research report has been supervised and approved by me and is therefore ready for submission to the School of Business in Uganda Christian University.

Signature……………………………………………… Date……05……/……06……/……2026……

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DEDICATION

With special regard, I wish to dedicate this piece of work to my parents who have always been there to support me in my education. May the Almighty God richly bless you.

ACKNOWLEDGEMENT

I would like to thank the Almighty God for the gift of life and guiding me throughout my education; it has not been easy but it was possible. My heartfelt gratitude goes to my supervisor, Madam Natuhwera Maureen for the tireless efforts and expertise she rendered to me during her supervision.

Finally, special thanks go to my dear parents and family for their love, moral and financial support during the entire period of my education career.

God bless you all.

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CHAPTER ONE

INTRODUCTION

1.0 Introduction

This study aims at examining credit accessibility and growth of SMEs in Uganda; a case of Makindye Municipality. In brief, it has background of the study, statement of the problem, research objectives and hypothesis, scope of the study, significance of the study and conceptual framework.

1.1 Background of the study

Access to credit is a critical factor for the survival, growth, and competitiveness of small and medium-sized enterprises (SMEs) globally. SMEs often face challenges in obtaining adequate financial resources due to limited collateral, perceived high risk by financial institutions, and bureaucratic lending procedures (Msomi & Maharaj, 2022). The availability of credit enables SMEs to expand operations, invest in technology, purchase raw materials, and improve working capital, which directly contributes to business growth and economic development (Ambrose, 2021). Financial accessibility, therefore, is not only a tool for enterprise growth but also a mechanism for poverty alleviation and employment creation in communities where SMEs operate (Collins, 2021). Despite the recognized importance of credit, many SMEs still experience constraints due to stringent lending conditions, high interest rates, and limited financial literacy among business owners (Bertocco & Kalajzić, 2022).

Credit accessibility is influenced by several factors, including collateral requirements, interest rates, loan processing procedures, and institutional support from governments and microfinance organizations (Duarte et al., 2017). SMEs that can secure timely and sufficient credit tend to show higher productivity, better innovation, and increased competitiveness in their respective markets (Calice et al., 2012). Conversely, the lack of accessible credit can limit operational capacity, constrain market expansion, and reduce the ability to withstand economic shocks (Mwenda, 2021). Studies in Uganda have indicated that SMEs often resort to informal lending channels due to the complexity of formal bank procedures, further highlighting the challenges in financial inclusion (Muhire & Olyanga, 2022). As such, understanding how credit accessibility affects SME growth is vital for policy formulation and targeted interventions that enhance enterprise performance (James & William, 2018).

Globally, the relationship between credit accessibility and SME growth has been widely examined in developed and developing economies. In the United States, SMEs benefit from various credit facilities, including small business loans and government-backed guarantees, which significantly enhance their operational efficiency and growth potential (Cheong et al., 2020). European countries such as Germany, France, and the United Kingdom have also implemented financial policies aimed at easing credit access for SMEs, often integrating subsidized loans and risk-sharing mechanisms to encourage entrepreneurship (Bajçinca, 2015). Similarly, in Asia, countries like China, Malaysia, and Japan provide specialized financial instruments and credit guarantee schemes to support SMEs' expansion and innovation capacity (Du et al., 2022). These studies indicate that structured financial support and favorable lending policies are crucial for SMEs' growth, highlighting the importance of formal credit accessibility in promoting enterprise sustainability (Wasiuzzaman et al., 2020).

In Africa, access to credit remains a significant challenge for SMEs due to weak financial infrastructure, high-interest rates, and limited institutional support. Studies in Kenya, South Africa, and Nigeria show that SMEs often face barriers such as insufficient collateral, complex loan application procedures, and stringent regulatory requirements that hinder growth and operational efficiency (Ngumbi et al., 2020; Sanni et al., 2020). Sub-Saharan Africa, in particular, exhibits low financial inclusion among SMEs, with countries like Tanzania, Uganda, and Zambia reporting that over 60% of small businesses do not have access to formal credit (Nkwabi & Mboya, 2019). Government interventions, microfinance institutions, and savings cooperatives play a role in bridging this credit gap, but challenges remain in terms of affordability, accessibility, and financial literacy (Engel & Lutz, 2013). Consequently, the growth and sustainability of SMEs in the African context are heavily dependent on effective and accessible financial services (Mutuku et al., 2023).

In Uganda, SMEs constitute a significant portion of the economy, contributing to employment, income generation, and industrial development (Balunywa, 2012). However, credit accessibility continues to be a major constraint for enterprise growth, particularly in urban municipalities like Makindye in Kampala (Ambrose, 2021). Empirical evidence suggests that SMEs in Makindye face challenges such as limited collateral, high-interest rates, and complex lending procedures that reduce their ability to scale operations (Muhire & Olyanga, 2022). Despite efforts by financial institutions and government initiatives to enhance SME financing, many entrepreneurs still rely on informal credit sources, which are often insufficient and risky (James & William, 2018). Investigating credit accessibility in the context of Makindye Municipality is therefore essential to identify gaps, inform policy, and provide targeted strategies for promoting the growth and sustainability of SMEs within the local urban economy (Eton et al., 2018).

1.2 Problem statement

In Uganda, SME contribute 20% to Gross Domestic Product and provide employment to over 1.5 million people which accounts for 90% of total non-farming private sector workers (UIA, 2018). The benefits of the SMEs in Ugandan economy cannot be overemphasized. Small and medium enterprises play significant role in employment and income generation, producing import substituting products, mitigating rural-urban drift and mobilization of local resources (Wasiuzzaman et al., 2020). Despite the role SMEs play in the Ugandan economy, they have continued to struggle to achieve their targets in terms of profitability, cash flow and market growth levels. Credit accessibility constraints might have worsened this situation. For example, enterprise survey data shows that small firms are more likely to be negatively impacted by credit accessibility constraints than the large firms which are 150 per cent more likely to use bank finance for new investment (Muhire & Olyanga, 2022).

More so, various studies from developed nations have been conducted like Nguyen (2001) who cited that inefficient financial management practices contribute immensely to SMEs' poor business performance. In a study on factors influencing growth of small scale businesses, Anditi (2014) reported that small business entrepreneurs faced several challenges of accessing funds for investing in their enterprises. In a study by Kira & He (2012) on the impact of firm characteristic in access to finance by looking on the SMEs; and in a study on factors influencing growth of small scale businesses in Bomet Constituency, Bett (2012) reported that small business entrepreneurs faced challenges of accessing funds to be put to their enterprises, since there are just few facilities to offer the products. Despite the fact that various studies have been conducted, they were concerned with other variables and none of them specifically targeted credit accessibility and growth of SMEs in Uganda, a case of Makindye Municipality hence warranting the need to conduct this study. **1.3**

1.3 Purpose of the study

The purpose of the study is to examine the relationship between credit accessibility and the growth of SMEs in Makindye Municipality, Kampala.

1.4 Specific objectives of the study

i. To establish the relationship between interest rates and the growth of SMEs in Makindye Municipality.
ii. To determine the relationship between collateral security and the growth of SMEs in Makindye Municipality.
iii. To evaluate the relationship between credit information access and the growth of SMEs in Makindye Municipality.

1.5 Research questions

i. What is the relationship between interest rates and the growth of SMEs in Makindye Municipality?
ii. What is the relationship between collateral security and the growth of SMEs in Makindye Municipality?
iii. What is the relationship between credit information access and the growth of SMEs in Makindye Municipality?

1.6 Scope of the study

1.6.1 Content scope

The study will mainly focus on examining the relationship between credit accessibility and the growth of SMEs in Makindye Municipality, Kampala. It specifically focuses on; establishing the relationship between interest rates and growth of SMEs, determining the relationship between collateral security and growth of SMEs and evaluating the relationship between credit information access and growth of SMEs in Makindye Municipality, Kampala.

1.6.2 Time scope

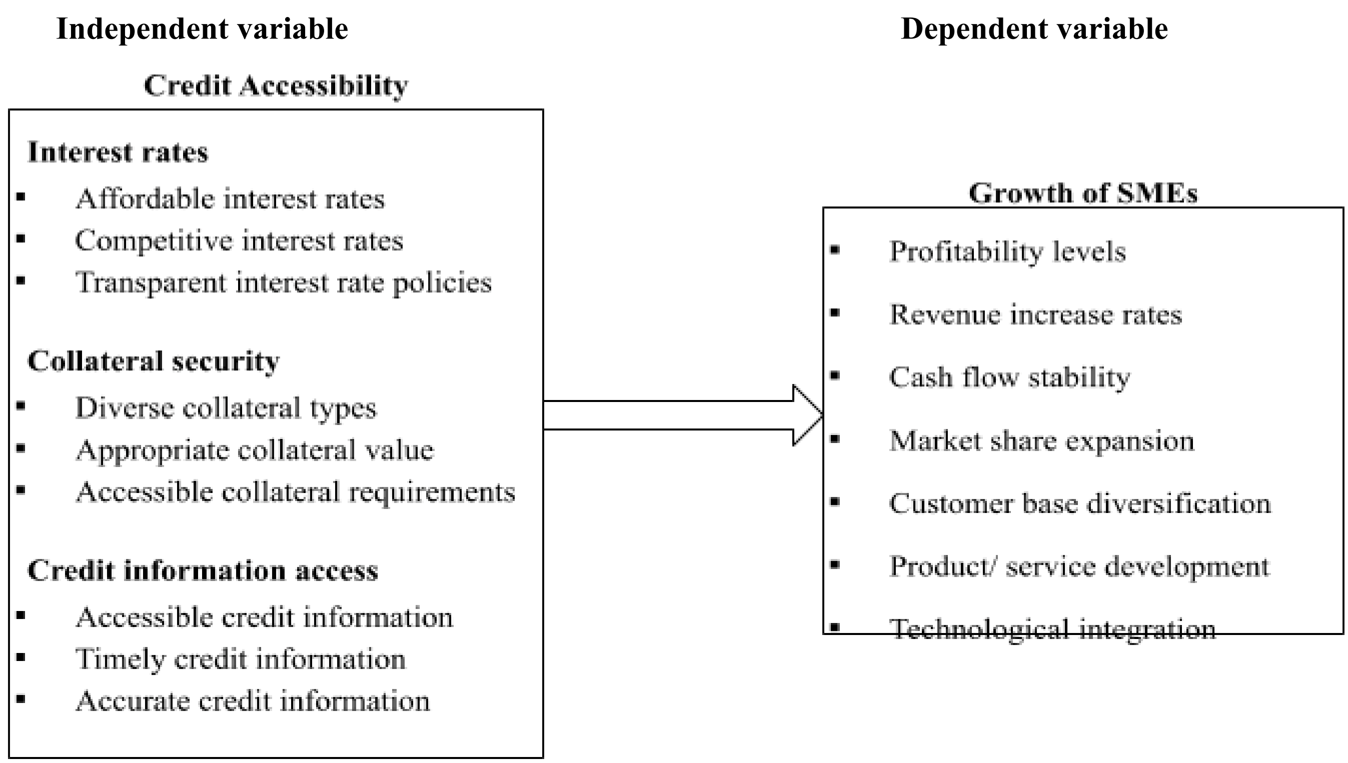
The study will focus on data for a period of five years that is from 2019 to 2023. This period will help in determining the growth of SMEs over the past five years in relation to their ability to access credit.

1.6.3 Geographical scope

This study will be carried out in selected SMEs located in Makindye Municipality, Kampala City in the central region of Uganda. SMEs in Makindye Municipality are selected because it's one of the areas in Kampala with a big number of SMEs that have currently been struggling with credit accessibility.

1.7 Conceptual framework

Figure 1: Conceptual framework



Source: *Adopted from, Muhire & Olyanga (2022) and modified by the researcher (2024)*

The above conceptual framework looks at the relationship between the independent variable (interest rates) and the dependent variable (growth of SMEs). Credit accessibility dimensions in this study are; interest rates which involve affordable interest rates, competitive interest rates and transparent interest rate policies; followed by collateral security which involves diverse collateral types, appropriate collateral value and accessible collateral requirements; and credit information access which involves accessible credit information, timely credit information and accurate credit information. On the other hand, the dimensions of growth of SMEs in this study are; profitability levels, revenue increase rates, cash flow stability, market share expansion, customer base diversification, product/ service development and technological integration.

1.8 Significance of the study

The study will add to existing literature on credit accessibility and growth of SMEs in Uganda. The study will provide information and knowledge about the importance of creditworthiness to SMEs which will help them improve their chances of getting credit. The study will relay information to financial institutions about perceptions of their services by business enterprises which will help them improve service delivery.

The information that will be captured in this research is aimed mainly to assist owners of SMEs in determining procedures and policies adopted by MFIs and other financial institutions from which they obtain financing. It will help small entrepreneurs in tackling the stringent terms and conditions required by the financing institution. Micro-finance institutions will also use the information obtained from this study to determine in depth the various challenges SMEs face in their access to financing from inception through all stages of development.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter discusses and reviews related researches and literatures published by journals, previous dissertations, text books, and authors' articles related to the research topic and its variables so as to give an insight of the study hence a better understanding to the readers of the research work. It will be reasonable to first review the more comprehensive literature on the effects of financial accessibility on the growth of SMEs.

2.1 Theoretical review

The study will be underpinned by both Resource Based theory and the Loanable Funds theory. The two theories complement each other and expand on the explanation of credit accessibility and growth of SMEs.

2.1.1 The Resource Based Theory

The Resource Based Theory developed by Edith Penrose in her seminal work "The Theory of the Growth of the Firm" in 1959 attributes business performance to the resources that a business has at its disposal. Proponents of this theory posit that firms that have better resources are likely to perform better than those with lesser resources at their disposal (Acar & Polin, 2015). The proponents of the theory stressed the fact that business entities can take advantage of their resources to have a better competitive edge. Businesses and firms have in the past relied on the traditional financing mechanism which appeared not to have worked for them. Ahmed (2002) argued that the reason for over reliance to traditional funding by SMEs resulted from lack of exchange and understanding of existing information that there is between lenders and borrowers. Financial organizations have information about credit worthiness and hedge against potential loses while on the other hand borrowers lack such kind of information (Collins, 2021).

Resource Based Theory explains that competitive advantage of a firm hinges on internal resources (Kraaijenbrink et al., 2012). According to this theory, SMEs lack of access to credit contributes to their failure since other firms with better resources have competitive advantage. In addition SMEs without proper resources will fail to satisfy both employees and their customers since they will lack the advantage of better resources (Dubey et al., 2019).

2.1.2 The Theory of Loanable Funds

The Theory of Loanable Funds formulated in the 1930s by British economist Dennis Robertson and Swedish economist Bertil Ohlin, asserts that the supply of loanable fund originates from the individual who need to save money also refers to us lenders while the demand comes from the people who wants to invest also known as borrowers (Bertocco & Kalajzić, 2022). The accessibility of these loanable funds depends on the interest rate that the lenders charge and whether the borrowers can afford the funds at the same interest rate. The rise in interest rate leads to decline in demand of loanable funds when all other factors remain unchanged. Gynlelberg and Johansson (2007) argue that reduction in nominal interest rate impacts positively on supply and demand of loans. There is negative linear relationship between interest rate and borrowing. The Loanable Funds theory is linked to credit access since accessibility to credit is related to the interest rate charged.

The Loanable Funds theory has been criticized on several counts with one of the criticisms being that the traditional statement of the theory does not specify the source and demand of the loanable funds (Gupta, 1974). Gupta, 1974 noted that not all the savings are available in the market for borrowing such as invested through assets and some people hoard cash in their houses (Tsujimura & Tsujimura, 2022).

2.2 Relationship between interest rates and growth of SMEs

Interest Rate also known as the Cost of Finances (COF) is the cost and interest and other charges involved in the borrowing of money to build or purchase assets. Whited (2010) in his contemporary study on rural finance argues that the cost of money is intended to compensate a contractor for the capital cost of employing certain facilities in the performance of contract. The cost of money charged by lending institutions includes operating costs, administrative costs, and an acceptable rate of return. Correspondingly, Odongo (2014) established that cost of money may be fixed for the term of the loan, or adjusted to reflect changing market conditions. Odongo also proposed that the cost of money is looked at on the SMEs' borrowing side as the charges paid for borrowing from financial institutions and mention four main components of cost of money which are reflected as: cost of funds, loan loss expenses, operating expenses, and profits. Financial institutions set their interest rates on the basis of the Central Bank Rate (CBR), which is the rate at which they transact with the central bank. The CBR is in principle determined on the basis of the prevailing macroeconomic conditions and in Uganda; this is done by Bank of Uganda which is the Central Bank of Uganda (Namatovu, 2010).

Zecchini and Ventura (2009) argue that currently, there's widespread agreement that for various financial institutions to operate profitably and sustainably, there's need for them to keep their costs as low as possible by levying proportionate interest rates and fees high enough to cover those costs. However, inability to access finance may be one of the reasons why we do not see a robust correlation between SME prevalence and economic growth, and financial constraints are particularly preventing small firms from reaching their growth potential in terms of financial performance (Wanjohi, 2009). These researchers further avow that although SMEs ought to pursue financial sustainability by whatever means available, financial institutions constrain their efforts by levying high interest rates to cover the costs of their lending and other services.

Rosenberg (2009) together with Zecchini and Ventura (2009), maintain that the interest rates charged to SMEs represent money taken out of clients' pockets, and it is unreasonable if it not only covers the costs of lending. Even the lending/ interest rate that only covers costs and includes no profit can still be unreasonable if the costs are excessively high because of avoidable inefficiencies which in turn results to poor financial performance of SMEs. There is therefore an inverse relationship between lending rates and access to debt finance for business renaissance. In effect, the low lending rate can lead to improved access to debt finance by SMEs, hence improved profitability and growth; while high lending rates constrain SMEs' access to debt finance which makes stagnated performance of SMEs inevitable (Wanjohi, 2009). In Uganda, financial institutions' average lending rates have remained high, averaging between 18% - 26% this has mainly been due to lack of competition in the banking sector. Mashenene (2014) suggests that this is due to a few banks controlling a large market share, high operational inefficiency, high operational costs and the high risk of borrowers (Mashenene, 2014).

Interest rate constitutes a very important factor affecting the growth of SMEs. As observed by Anyawu et al. (2010), one of the purposes of the policies of agricultural credit years over was the provision adequate credit to the agricultural players at an affordable cost and at the right time. According to Afolabi (2010), the intervention of government in form of sectoral credit allocation, oligopolistic tendencies, interest rate ceilings and highly concentrated market structure that resulted in monopoly as well as promoting other inefficiencies that are responsible for economic distortions. On the empirical ground, there are several studies investigating the effect of interest rate on business growth.

Chambers and Just (2019) noted that while some research found that interest rates play a role in the growth of SMEs, still others found that the interest rate has relatively small impact on the small business sector of the economy. They critiqued the treatment of interest rates in agricultural trade models. Their findings were clear: the approach to dealing with the interest rate in agricultural models at that time was overly restrictive in the specification of the interest rate variable in empirical business trade models.

Omojimite (2012) carried out a study on the relationship between the growth of SMEs, macroeconomic policy and institutions finds significant signal in sustenance of the hypothesis that institutions are more critical in economic growth particularly the Nigerian business sector growth. The study recommended that, interest rate should be liberalized to the business sector and institutional supports should be strengthen basically on the areas such as extension services to farmers and subsidized inputs.

Amassoma, Nwosa and Ofere (2011) examined the nexus of lending rate, deregulation of interest rate and SMEs' productivity in Ghana using annual data spanning 1986 to 2009. The authors used ordinary least squares (OLS) econometric estimation technique and co-integration and ECM as well as long run relationship was revealed among the variables from the co-integration test while the error correction modeling revealed a significant and positive relationship between interest rate deregulation and agricultural productivity. The study further recommended that, interest rate should be market determined so as to serve as a catalyst for improved agricultural productivity. It is also expected that government must make it possible for the financial sector to carry out the policies that will guarantee available credit to the preferred sector, especially every sort of farmers and not bigger borrowers only like the government alone for the sole aim of boosting the productivity of the Ghanaian agricultural sector.

Kolawole (2013) empirically investigated the effect of interest rate and some macroeconomic variables on the performance of the Nigerian small business sector using time series annual data from 1980 2011. The study employed the ECM model within the framework of OLS regression estimation. A long run relationship was revealed among the variables and the ECM model found out that there was an inverse relation between interest rate spread small business productivity. There was also a negative relationship between exchange rate and business productivity. This means that assuming the interest rate spread levels and exchange rate is increased, there will be a decline in the degree of agricultural value added in the country.

Interest expenses on holding inventory could have a significant impact on SME profitability. The cost of holding inventory is the interest paid if the business has debt or the interest that would have been collected, usually called opportunity costs, if the inventory had been sold. In practice, interest rates can vary in a large range from four to six per cent for operating loans to 18 to 24 per cent for short-term loans from agri-businesses. High interest rates usually result in additional financial burden for agribusinesses. Interest costs must be included in the calculation of any cost of production analysis.

2.3 Relationship between collateral security and growth of SMEs

Insufficient collateral is the most widely mentioned obstacle faced by SMEs in accessing finance. In some cases the entrepreneurs are unable to provide the sufficient collateral because the business is not firmly established. In some cases, the lender may deem the collateral insufficient in view of the loan size requested. In the USA, the investment statement demands detailed information and forecasting. The increasing pressure for continuous disclosure places great pressure on SME management team (Juliet McKee, 2013). The researcher also stated that not being firmly established affects one from borrowing in financial institutions.

Banking institutions all over the world are in business and any transaction entered into by clients must promise business gains to the two parties involved. In the light of this, lending institutions must seek to evaluate credit worthy of a given borrower before loans are processed and aspects to be considered is available asset security against the loan applied for (Olwalo, 2012). Lack of income or collateral is the most widely obstacle faced by SMEs in accessing finance. In some cases the entrepreneurs are unable to provide the sufficient collateral because it is not firmly established. In some cases the lender may deem the collateral insufficient in view of the loan size requested (Tore, 2013).

Most banks accept only unmovable properties like land and buildings as collaterals. Even if the business owner has land or building, they cannot use these assets as collaterals if they do not have title deeds of the properties. In most setups in Kenya, the entrepreneurs tend to seek finance from their own resources and then from families and friends and then from sources like banks (Adonita, 2014).

In the views of Hamil (2011), it is globally agreed that poverty is partially determined by the ability of households to access capital and other essential financial services that allow them to generate greater returns and weather cash flow fluctuations. Whether to start an enterprise, save for a child's schooling, insuring against natural disasters, or cover health care costs, access to credit and other financial services can significantly improve the lives of people living in poverty, yet often these funds are hard to access if security is not provided.

Studies of the impact of micro credit in more than 24 countries found dramatic improvements in household income levels. These improvements took place primarily through growth in the borrower's business, which translated into increased household income. The studies found that access to micro credit allowed the borrower to increase the number of goods or services sold and reduce the costs of supplies and raw materials. However, access to credit facilities does not come easily and the amount obtained is pegged on the availed collateral value (Jamil, 2012).

A pool of assets in the form of security offers commercial lending institutions to clearly perceive the client's ability to obtain a given amount of loan, as well as the indication that the credit can be effectively managed (Odongo, 2012). He observes that some clients even use the property that they do not legally own in the hope that their ability for loans may increase and banks become so keen to establish legal ownership of the assets.

Most SMEs claim that they use their own money for start-up and expansion. Most of the financing for working capital comes from suppliers in terms of credit. The reason why they do not want to use external financing is that they do not want to face complex procedures of tight collateral requirements by banks (Adonita, 2014). Business owners preferred using their own capital for business expansion to a certain level where they can reach. They further expand their business with the profit earned from their business operations. Some managers do not want to expand their businesses due to the current business environment but they want to operate to maintain their customers and position in the business field. It is in line with the researcher that the reason why they do not want to use external financing is that they do not want to face complex procedures of tight collateral requirements by banks.

2.4 Relationship between credit information access and growth of SMEs

A wide range of empirical studies have been conducted on growth of SMEs and financial awareness measurement separately. The studies generally have focused on the determinants of saving and financial awareness measurement of a sample (Aren and Dinç-Aydemir, 2014; Özdemir et al., 2015; Baysa and Karaca, 2016; Şamiloğlu et al., 2016). However, a limited number of studies analyzed the effect of financial awareness on household income and mostly revealed that financial awareness positively affected the savings which further improves household income (Beckmann, 2013; Murendo and Mutsonziwa, 2017).

Financially aware clients make optimal financial and economic decision including, savings, borrowing, investment as well as properly managing of daily money (Capuano & Ramsey, 2011). Increasing number of empirical studies have also evidenced the role financial literacy plays in managing personal finance, both asset and liability. This is why financial literacy has become a policy concern in developed countries since the 1990s. Albeit the developing and low income countries are late in realizing financial literacy, the beginning in some countries evidenced the issue has become relevant policy concern in these countries too. According to Miller et al. (2009), the relevance of financial awareness creation in developing countries where the financial sector has been involving new service providers, complex financial products and service offered to new consumers to financial market is paramount.

Financial awareness is important for the development of SMEs, because the individuals who are at both fund supplier and demander of the financial system. Hence, Jappelli and Padula (2011) revealed that countries with higher financial awareness creation level had relatively higher savings and a 1 unit standard deviation increase in financial awareness creation led a 3.6 points increase in the national savings. Therefore, many countries, especially the United States and European Union countries, are trying to improve financial awareness by lowering financial education to the level of primary education and by organizing various programs for adults.

Shankari et al. (2014) also indicated that, financially aware consumers encourage genuine competition by compelling service providers to innovate and improve efficiency, which is not only in the best interest of consumers, but also contributes to the development of financial system and sustainability of an economy. The outcomes of improved financial awareness would also help financial sector regulators. In this regard, Shankar et al. (2014) indicated that, financial literacy improves financial system regulatory mechanism, because of the fact that seeking and processing financial information by the common people reduces information asymmetry between financial service providers and client, which in turn, reduces market failure.

2.5 Summary of literature review

This literature review explores the relationship between financial accessibility and SME growth, focusing on interest rates, collateral security, and credit information access. It identifies a gap in research on the combined effect of these factors on SME growth in Uganda, particularly regarding the moderating role of credit information access on the relationships between interest rates, collateral requirements, and SME growth.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter covers the methodology that the researcher will use in the process of carrying out research. It covers the tools that will be used by the researcher such as the research design, the area of study, study population, sample selection, data sources, data collection methods that will be used in the field, data analysis target population, procedures and data analysis, ethical issues and anticipated limitations of the study.

3.1 Research design and approach

The study will involve the use of cross-section survey research design. Cross-section survey research entails the collection of data to make inferences about the population of interest at one point in time. It will be used since it can investigate the effects of various demographic factors (age, for example) on individual differences. Cross-sectional survey will also use correlation and regression analysis to determine the relationship between financial accessibility and growth of SMEs in Makindye Municipality. It will also be used because it reduces time wastage and costs and it also gives useful conclusions in the form of statistics and in-depth details about the study.

Furthermore, quantitative research approach will be used in this study. According to Dawadi et al., (2021), a quantitative approach employs a statistical way of understanding a research phenomenon. It allows an in-depth understanding of the issues under study by presenting them in a quantifiable formula. Similarly, this study will employ a quantitative approach because Dawadi et al., (2021) also assert that it enables the researcher to gather data from a large number of participants in a short time and that the approach is less costly to a study like this which has no external funding.

3.2 Study area

The study will be carried out in different SMEs located in Ssabagabo-Makindye Sub-county, Makindye Municipality, Kampala City located in the central region of Uganda. SMEs in Makindye

Municipality are selected because it's one of the areas in Kampala with a big number of SMEs that have currently been struggling with credit accessibility.

3.3 Study population and sample size

According to UIA's Strategic Plan 2016-2021, there are 1100 registered SMEs in Ssabagabo-Makindye Sub-county, Makindye Municipality conducting different businesses like; boutiques, saloons, groceries, garages, bars, restaurants and agricultural produce among others and these will be included in the study as the target population. The sample size will therefore be gotten using Krejcie and Morgan (1970) table as shown below.

Table 1: Krejcie & Morgan sample size determination

Table 3.1

Table for Determining Sample Size of a Known Population

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	346
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	354
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	191	1200	291	6000	361
45	40	170	118	400	196	1300	297	7000	364
50	44	180	123	420	201	1400	302	8000	367
55	48	190	127	440	205	1500	306	9000	368
60	52	200	132	460	210	1600	310	10000	370
65	56	210	136	480	214	1700	313	15000	375
70	59	220	140	500	217	1800	317	20000	377
75	63	230	144	550	226	1900	320	30000	379
80	66	240	148	600	234	2000	322	40000	380
85	70	250	152	650	242	2200	327	50000	381
90	73	260	155	700	248	2400	331	75000	382
95	76	270	159	750	254	2600	335	1000000	384

Note: N is Population Size; S is Sample Size *Source: Krejcie & Morgan, 1970*

Therefore from the table above, the sample size will be 285 registered SMEs got from a total population of 1100 registered SMEs located in Makindye Sub-county, Makindye Municipality dealing in different businesses like; boutiques, saloons, groceries, garages, bars, restaurants and agricultural produce among others.

3.4 Sampling method

The researcher will use simple random sampling which is a method under probability sampling technique. The registered SMEs in Makindye Sub-county, Makindye Municipality will be selected using simple random sampling given that these are big in number and using this method eases their selection and will give each person to participate in the study, simple random sampling is preferred because its procedure is un biased and prevent bias in their work and makes research on large populations more practical. This technique will help in reducing on the costs of collecting and analyzing data.

3.5 Sources of data

The researcher will use data from both primary and secondary sources. In this case the researcher will use the primary sources like capture of the firsthand information from the SMEs while with secondary data the researcher will use information published by other researchers in text books, the internet, and journals, among others.

3.5.1 Primary data

Panneerselvan (2005) defines primary data as data which is collected for the first time by direct observation. Therefore the researcher will use primary data to get information from the respondents by use of questionnaires to collect data from respondents. Primary source of data will also be used because it enables the researcher to observe and get information direct from the activities that will be taking place in the area of the study.

3.5.2 Secondary data

Secondary data is the data which is obtained from the existing records publications and among others (Pannerslvan, 2004). Secondary data for this study will be gotten from sources like reading publications and text books as well as journals written by different authors concerning financial accessibility and growth of SMEs.

3.6 Data collection method

The study will involve the use of a questionnaire as the data collection method which is briefly explained in the following subsection.

3.6.1 Questionnaire Survey

According to Katamba & Nsubuga (2014) a questionnaire is a set of questions designed by the researcher for purpose of collecting data. The questionnaire will include open ended questions which require the respondent to give more details about the subject matter and because they give the respondents opportunity to express their opinion in free flowing manner giving them time to think before answering questions since it avoids personal contact. Semi structured or closed ended questions where answers are provided will also be used and the respondents will only be required to tick the best suitable answer about the subject matter.

3.7 Data Collection Instrument

The study will be guided by the following research instrument:-

3.7.1 Questionnaire

A questionnaire offers respondents' liberty to provide data in specifics, as a result of the open-ended nature of some of the items it contained (Creswell, 2014). Since a sizable portion of the population may be semi-illiterate, the researcher will employ questionnaires. Because they will be simple to complete, save time, and help respondents stay more focused on the topic, the researcher will create both closed- and open-ended questions. The questionnaire will be broken down into sections containing questions on the dependent variable, the independent variable, and personal information. Since questionnaires are the primary means of gathering data, they will be used. This will benefit the researcher because it will take less time to cover a wide population. The questionnaires will be the most effective tools for quantitative research since they allow for anonymity, which suggests that the answers are more truthful. The guidelines for how to approach and react to the questions will be made evident to the respondents. The closed ended questions on the questionnaire will be measured using a Likert scale of five where 5= strongly Agree, 4= Agree, 3=Not Sure, 2= Disagree and 1=Strongly Disagree. Self-administered questionnaires will be used to collect quantitative data from a sample of 36 SMEs from Makindye Sub-county, Makindye Municipality.

3.8 Quality and error control

The researcher will use validity of instruments and reliability to check the quality of the information collected in order to avoid double counting.

3.8.1 Validity of the research instrument

Validity will be done in order to find out whether the questions are capable of capturing the intended data (Cohen et al., 2007). Experts in research will review the questions to see whether they were capable of capturing the intended response. A Content Validity Index (CVI) will be calculated in order to establish the validity of the research instrument. The researcher will use the following formula to establish validity of the research instruments as seen below.

$$\text{Content validity Index (CVI)} = \frac{\text{Relevant items by all judges as suitable}}{\text{Total number of items judged.}}$$

If the CVI is equal to or greater than the recommended 0.70 (Kent, 2001), this will imply that the questionnaire is valid for data collection.

3.8.2 Reliability of the research instrument

Reliability of the questionnaire instrument will be assessed using Cronbach's coefficient alpha (Mugenda and Mugenda, 2003). A pilot study will be carried out on 10 respondents and the reliability results will be computed using the Statistical Package for the Social Sciences (SPSS). The following formula will be used to calculate the Cronbach's coefficient alpha

$$\alpha = \frac{k}{K-1}\left(1 - \frac{\sum SDi^2}{\sum SDt^2}\right)$$

Where α = coefficient alpha

$\sum SDi^2$ = sum variance of items

$\sum SDt^2$ = sum variance of scale

If the coefficient is equal to or above the recommended .70 (Amin, 2005), it implies that the questionnaire is suitable for data collection.

3.9 Data collection procedure

After approval of the proposal from Uganda Christian University, the researcher will be given a letter of introduction to the selected registered SMEs operating in Makindye Sub-county, Makindye Municipality. This will serve to secure permission in order to carry out the study in these SMEs. The researcher will present a letter of consent to the respondents, after which, questionnaires will be distributed. The respondents will be given time within which they should have returned the fully filled questionnaires. After the questionnaires have been filled, the researcher will collect them, sort them and code them.

3.10 Data analysis

At univariate analysis, descriptive analysis will be done using SPSS version 20. Frequencies and percentages for different variables will be (percentage) in bar charts with one bar for each response category. This data will be presented using tables. At bivariate analysis, to determine the relationship between social media tax literacy and compliance, a chi square test and Fishers exact test will be used for categorical variables and the Student's t-test for numerical data. Variables will be considered significant at 95%CI (p-value - 0.15).

Furthermore, Pearson's correlation and coefficient of determination will be used to test the hypotheses. The correlation coefficient (*r*) will be used to determine the strength of the relationship between the variables because the scale (that is strongly disagree, disagree, not sure, agree and strongly agree) that accompany the questionnaire is ordinal. Finally, the regression coefficient (R) determined the linear relationship between variables. This will then be squared and adjusted to determine how much variance in the dependent variable is caused by the dimensions of the independent variables as per hypothesis.

3.11 Ethical clearance

The researcher will seek ethical clearance from the University. However, administrative approvals will be obtained from the owners of the selected SMEs in Makindye Sub-county, Makindye Municipality. Informed consent will be obtained from respondents concerning whether they want to participate in the study or not. It will also be explained to the study participants that their participation will be voluntary with no payment involved and they will be free to withdraw consent at any time during the study. Finally, confidentiality where the information got from the field will only be used for academic purposes.

For interviews, interview questions will focus only on the research topic mentioned above. Interview partners will be notified in detail when conducting an interview. Respondents have full authority to accept or refuse to participate in interviews to conduct research. The parties involved in the interview will be oriented on how their interviews will be reserved only for the purpose of conducting this study and in any case their participation and comments will not be used for any other purpose.

3.12 Anticipated limitations and the possible solutions

The research instruments may not be standardized. Therefore a validity and reliability test will be done to produce a credible measurement of the research variables.

Additionally, the use of research assistants can bring about inconsistency in the administration of the questionnaires in terms of time of administration, understanding of the items in the questionnaires and explanations given to the respondents. To minimize this threat, the research assistants will be oriented and briefed on the procedures to be done in data collection.

Finally, not all questionnaires maybe returned neither completely answered nor even retrieved back due to circumstances on the part of the respondents such as travels, sickness, hospitalization and refusal/withdrawal to participate. In anticipation to this, the researcher will reserve more respondents by exceeding the minimum sample size. The respondents will also be reminded not to leave any item in the questionnaires unanswered and will be closely followed up as to the date of retrieval.

CHAPTER FOUR

DATA PRESENTATION AND INTERPRETATION OF FINDINGS

4.0 Introduction

This chapter presents and discusses the results of analysis that has been done to look at the specific objectives of the study and in relation to the reviewed literature. The study was cried out using questionnaires with the owners or managers of selected SMEs in Makindye Municipality.

The findings are presented with the help of tables for purposes of clarity and interpretation.

4.1 Response rate

Table 2: Response rate for all the respondents

Response Rate	Sample Size	
	Frequency	**Percentage (%)**
Received	200	70.2%
Non Response	85	29.8%
Expected Response	285	100.0%

Source: *Primary data*

According to Table 2 above, a total of 285 SMEs represented by either the owner or the manager were expected to participate in the study; however, 200 successfully returned the questionnaires, representing a response rate of 70.2%, while 85 (29.8%) did not respond. Ahuja (2009) notes that a response rate of 70% is excellent, 60% is good, and 50% is adequate for analysis; therefore, the 70.2% response rate obtained in this study was considered highly reliable and suitable for data analysis. The non-response from a few participants was mainly due to limited time for data collection, as the researcher had to meet the dissertation submission deadline while some respondents delayed in returning the questionnaires.

4.2 Descriptive analysis of the demographic characteristics of respondents

The researcher established the demographic characteristics of respondents who are the owners or managers of selected SMEs in Makindye Municipality and these included; gender, age group, highest level of education, type of business and period spent operating the business.

Table 3: Showing of demographic characteristics of respondents

Item	Description	Frequency	Percentage (%)
Gender	Male	112	56.0
	Female	88	44.0
	Total	**200**	**100.0**
Age	21-30 years	60	30.0
	31-40 years	84	42.0
	41-50 years	36	18.0
	Above 50 years	20	10.0
	Total	**200**	**100.0**
Level of education	Primary	36	18.0
	Secondary	76	38.0
	Tertiary	64	32.0
	Others	24	12.0
	Total	**200**	**100.0**
Type of business	Boutiques	28	14.0
	Saloons	24	12.0
	Groceries	40	20.0
	Garages	22	11.0

	Bars	20	10.0
	Restaurants	18	9.0
	Stationary Bureaus	12	6.0
	Market stalls for agricultural produce	36	18.0
	Total	**200**	**100.0**
Period spent operating the business	1-5 years	64	32.0
	6-10 years	96	48.0
	Above 10 years	40	20.0
	Total	**200**	**100.0**

Source: *Primary data*

The findings in Table 3 indicate that the majority of the respondents were male at 56.0%, while 44.0% were female. This implies that male owners or managers constituted a larger proportion of the SMEs operating in Makindye Municipality compared to their female counterparts.

The results also show that the largest proportion of respondents were in the 31–40 years age group at 42.0%, followed by those aged 21–30 years at 30.0%, while 18.0% were in the 41–50 years age group and 10.0% were above 50 years. This suggests that most SME owners or managers in Makindye Municipality are relatively young and in their most economically active age bracket.

Furthermore, the findings revealed that the majority of respondents had attained secondary education at 38.0%, followed by those with tertiary education at 32.0%, while 18.0% had primary education, and 12.0% fell under other forms of education. This indicates that most SME owners or managers in Makindye Municipality possess at least a secondary level of education.

In addition, the results established that the largest proportion of respondents operated groceries at 20.0%, followed by market stalls for agricultural produce at 18.0%, while boutiques accounted for

14.0%, saloons accounted for 12.0%, garages accounted for 11.0%, bars accounted for 10.0%, restaurants accounted for 9.0%, and stationary bureaus accounted for 6.0%. This indicates that grocery businesses and market stalls were the most common types of SMEs operated in Makindye Municipality among the respondents.

Lastly, the findings revealed that the majority of respondents had spent 6–10 years operating their businesses at 48.0%, followed by those who had operated for 1–5 years at 32.0%, while 20.0% had operated their businesses for above 10 years. This implies that most SME owners or managers in Makindye Municipality have moderate business experience ranging between six and ten years.

4.3 Relationship between interest rates and the growth of SMEs

Table 4 summarizes respondents' responses on the relationship between interest rates and the growth of SMEs in Makindye Municipality by using a Likert scale where SA (Strongly Agree), A (Agree), NS (Not Sure), D (Disagree) and SD (Strongly Disagree).

Table 4: Relationship between interest rates and the growth of SMEs

Statements	Extent of agreement and disagreement				
	SA	A	NS	D	SDA
	F (%)	F (%)	F (%)	F (%)	F (%)
High interest rates charged by financial institutions limit my business's ability to obtain loans.	136 68.0%	28 14.0%	20 10.0%	8 4.0%	8 4.0%
Affordable interest rates encourage my business to apply for credit from financial institutions.	128 64.0%	54 27.0%	8 4.0%	10 5.0%	00
Fluctuating interest rates make it difficult for my business to plan long-term investments.	92 46.0%	81 40.5%	21 10.5%	6 3.0%	00
Lower interest rates have enabled my business to expand its operations.	102 51.0%	54 27.0%	31 15.5%	13 6.5%	00

The interest rates charged on loans significantly influence my decision to borrow for business purposes.	102 51.0%	60 30.0%	7 3.5%	31 15.5%	00
High interest rates reduce the profitability and growth potential of my business.	119 59.5%	45 22.5%	23 11.5%	13 6.5%	00

Source: *Primary data*

Table 4 represents the descriptive statistics on the relationship between interest rates and the growth of SMEs in Makindye Municipality. According to the study, 82.0% of the respondents agreed that high interest rates charged by financial institutions limit their business's ability to obtain loans, whereas 8.0% disagreed and 10.0% were not sure about the statement. This implies that high borrowing costs significantly discourage SMEs from accessing formal credit, which in turn limits their ability to finance business expansion and growth activities.

The findings also revealed that 91.0% of the respondents agreed that affordable interest rates encourage their businesses to apply for credit from financial institutions, while 5.0% disagreed and 4.0% were not sure. This implies that when interest rates are manageable, SMEs are more willing to seek external financing, which enhances their capacity to invest in business operations and ultimately promotes enterprise growth.

Furthermore, the study established that 86.5% of the respondents agreed that fluctuating interest rates make it difficult for their businesses to plan long-term investments, whereas 3.0% disagreed and 10.5% were not sure. This implies that unstable interest rates create financial uncertainty for SMEs, making it challenging for them to engage in effective financial planning and long-term investment decisions necessary for business growth.

More so, the findings indicated that 78.0% of the respondents agreed that lower interest rates have enabled their businesses to expand operations, while 6.5% disagreed and 15.5% were not sure about the statement. This implies that favorable borrowing conditions allow SMEs to obtain the financial resources needed for expanding their business activities, such as purchasing equipment, increasing stock, and entering new markets.

In addition, the results showed that 81.0% of the respondents agreed that the interest rates charged on loans significantly influence their decision to borrow for business purposes, whereas 15.5% disagreed and 3.5% were not sure. This implies that the cost of borrowing is a major determinant of credit utilization among SMEs, and high interest rates may discourage entrepreneurs from seeking loans even when financing is necessary for growth.

Lastly, the findings revealed that 82.0% of the respondents agreed that high interest rates reduce the profitability and growth potential of their businesses, while 6.5% disagreed and 11.5% were not sure. This implies that expensive credit increases the financial burden on SMEs, reducing profit margins and limiting the resources available for reinvestment and expansion, which ultimately affects overall business growth.

Overall, the findings indicate that interest rates have a strong influence on the growth of SMEs in Makindye Municipality, as evidenced by the majority of respondents agreeing across all statements. The results demonstrate that affordable and stable interest rates encourage SMEs to access credit, facilitate financial planning, and support business expansion, whereas high and fluctuating interest rates hinder borrowing, reduce profitability, and limit enterprise growth.

4.4 Relationship between collateral security and the growth of SMEs

Table 5 summarizes respondents' responses on the relationship between collateral security and the growth of SMEs in Makindye Municipality by using a Likert scale where SA (Strongly Agree), A (Agree), NS (Not Sure), D (Disagree) and SD (Strongly Disagree).

Table 5: Relationship between collateral security and the growth of SMEs

Statements	Extent of agreement and disagreement				
	SA	A	NS	D	SDA
	F (%)	F (%)	F (%)	F (%)	F (%)
The requirement for collateral security affects my business's ability to access loans from financial institutions.	128 64.0%	45 22.5%	17 8.5%	10 5.0%	00

My business has adequate assets that can be used as collateral when applying for credit.	98 49.0%	62 31.0%	18 9.0%	22 11.0%	00
Strict collateral requirements discourage my business from seeking loans from banks or financial institutions.	111 55.5%	70 35.0%	9 4.5%	10 5.0%	00
The value of collateral required by lenders is often higher than what my business can provide.	141 70.5%	40 20.0%	12 6.0%	7 3.5%	00
Flexible collateral requirements would increase my business's chances of obtaining credit.	91 45.5%	83 41.5%	18 9.0%	8 4.0%	00
The availability of acceptable collateral has helped my business access credit for expansion.	99 49.5%	60 30.0%	22 11.0%	19 9.5%	00

Source: *Primary data*

Table 5 represents the descriptive statistics on the relationship between collateral security and the growth of SMEs in Makindye Municipality. According to the study, 86.5% of the respondents agreed that the requirement for collateral security affects their business's ability to access loans from financial institutions, whereas 5.0% disagreed and 8.5% were not sure about the statement. This implies that collateral requirements significantly influence SMEs' ability to obtain credit, and strict requirements may limit their access to financing needed for business expansion and growth.

The findings also revealed that 80.0% of the respondents agreed that their businesses have adequate assets that can be used as collateral when applying for credit, while 11.0% disagreed and 9.0% were not sure. This implies that the availability of assets that can serve as collateral increases the chances of SMEs accessing financial support, which can enhance their capacity to invest in business development activities.

Furthermore, the study established that 90.5% of the respondents agreed that strict collateral requirements discourage their businesses from seeking loans from banks or financial institutions, whereas 5.0% disagreed and 4.5% were not sure. This implies that rigid collateral conditions imposed by lenders may deter SMEs from applying for loans, thereby limiting their opportunities to access external financing for business growth.

More so, the findings indicated that 90.5% of the respondents agreed that the value of collateral required by lenders is often higher than what their businesses can provide, while 3.5% disagreed and 6.0% were not sure about the statement. This implies that many SMEs face difficulties meeting collateral value requirements, which restricts their ability to secure credit and expand their operations.

In addition, the results showed that 87.0% of the respondents agreed that flexible collateral requirements would increase their businesses' chances of obtaining credit, whereas 4.0% disagreed and 9.0% were not sure. This implies that easing collateral conditions could significantly improve SME access to financing, thereby enabling them to invest in business growth and operational improvements.

Lastly, the findings revealed that 79.5% of the respondents agreed that the availability of acceptable collateral has helped their businesses access credit for expansion, while 9.5% disagreed and 11.0% were not sure. This implies that when SMEs possess assets that meet lender requirements, they are more likely to secure loans that support business expansion and improved performance.

Overall, the findings indicate that collateral security has a strong influence on the growth of SMEs in Makindye Municipality, as evidenced by the majority of respondents agreeing across all statements. The results demonstrate that while collateral facilitates access to credit when available, strict and high-value collateral requirements often act as a barrier that limits SME access to financial resources necessary for growth and development.

4.5 Relationship between credit information access and the growth of SMEs

Table 6 summarizes respondents' responses on the relationship between credit information access and the growth of SMEs in Makindye Municipality by using a Likert scale where SA (Strongly Agree), A (Agree), NS (Not Sure), D (Disagree) and SD (Strongly Disagree).

Table 6: Relationship between credit information access and the growth of SMEs

Statements	Extent of agreement and disagreement				
	SA	A	NS	D	SDA
	F (%)	F (%)	F (%)	F (%)	F (%)
My business has access to adequate information about available credit facilities from financial institutions.	94 47.0%	87 43.5%	9 4.5%	10 5.0%	00
Access to clear information about loan terms and conditions helps my business make better borrowing decisions.	58 29.0%	113 56.5%	22 11.0%	7 3.5%	00
Financial institutions provide sufficient guidance on credit application procedures for SMEs.	119 59.5%	62 31.0%	15 7.5%	4 2.0%	00
Limited access to credit information makes it difficult for my business to obtain financing.	111 55.5%	67 33.5%	9 4.5%	13 6.5%	00
Awareness of different lending options improves my business's ability to secure credit.	144 72.0%	40 20.0%	12 6.0%	4 2.0%	00
Access to reliable credit information has improved my business's financial planning.	99 49.5%	54 27.0%	31 15.5%	16 8.0%	00

Source: *Primary data*

Table 6 represents the descriptive statistics on the relationship between credit information access and the growth of SMEs in Makindye Municipality. According to the study, 90.5% of the respondents agreed that their businesses have access to adequate information about available credit facilities from financial institutions, whereas 5.0% disagreed and 4.5% were not sure about the statement. This implies that access to information about available credit opportunities enhances SMEs' awareness of financing options, thereby improving their chances of obtaining financial support for business growth.

The findings also revealed that 85.5% of the respondents agreed that access to clear information about loan terms and conditions helps their businesses make better borrowing decisions, while 3.5% disagreed and 11.0% were not sure. This implies that when SMEs clearly understand loan requirements such as interest rates, repayment schedules, and conditions, they are able to make informed borrowing decisions that support sustainable business development.

Furthermore, the study established that 90.5% of the respondents agreed that financial institutions provide sufficient guidance on credit application procedures for SMEs, whereas 2.0% disagreed and 7.5% were not sure. This implies that guidance from financial institutions plays a key role in helping SMEs successfully complete loan application processes and access financial services that can enhance their operational capacity.

More so, the findings indicated that 89.0% of the respondents agreed that limited access to credit information makes it difficult for their businesses to obtain financing, while 6.5% disagreed and 4.5% were not sure about the statement. This implies that inadequate access to financial information creates barriers for SMEs seeking credit, thereby limiting their opportunities to secure funds necessary for business expansion.

In addition, the results showed that 92.0% of the respondents agreed that awareness of different lending options improves their businesses' ability to secure credit, whereas 2.0% disagreed and 6.0% were not sure. This implies that increased awareness of various financial products and lending institutions enables SMEs to identify suitable financing sources, which enhances their ability to obtain credit and support business growth.

Lastly, the findings revealed that 76.5% of the respondents agreed that access to reliable credit information has improved their businesses' financial planning, while 8.0% disagreed and 15.5% were not sure. This implies that reliable financial information enables SMEs to plan their borrowing and investment decisions more effectively, thereby promoting better financial management and business growth.

Overall, the findings indicate that credit information access has a strong relationship with the growth of SMEs in Makindye Municipality, as evidenced by the majority of respondents agreeing across all statements. The results demonstrate that access to accurate and reliable credit information enhances SMEs' awareness, decision-making, and financial planning, which collectively improves their ability to secure financing and expand their business operations.

4.6 Correlation analysis on credit accessibility and growth of SMEs

This study was set to investigate the relationship between credit accessibility and the growth of SMEs in Makindye Municipality, Kampala. This was done by running a correlation analysis using Pearson Product Moment Correlation coefficient between the three components of credit accessibility which include; interest rates, collateral security, and credit information access in relation to growth of SMEs in Makindye Municipality, Kampala as indicated in the conceptual framework. For a correlation to be considered significant, the P-value (Sig. (2.tailed) values must be less than 0.05 (for 95% confidence level) or less than 0.01 (for 99% confidence level) and the findings are shown in Table 7 below.

Table 7: Correlation Matrix

Variables	Mean	St. Dev.	1	2	3
1. Interest rates	4.32	.644	1		
2. Collateral security	4.33	.594	.751**	1	
3. Credit information access	4.35	.599	.795**	.792**	1
4. Growth of SMEs	3.66	1.227	**.753****	**.844****	**.776****

Note: a) 1= Interest rates; 2= Collateral security; 3= Credit information access; and 4= Growth of SMEs

b) **P* < .05, ** *p* < .01, *** *p* < .001 level of Significance

Source: *Primary data*

In relation to interest rates and growth of SMEs in Makindye Municipality, results as shown in Table 7 revealed that there is a significant positive relationship between interest rates and growth of SMEs, affirmed by (r = .753**, $p < .01$). This implies that interest rate conditions significantly influence the growth of SMEs, meaning that favorable and manageable interest rates enhance SMEs' ability to access credit, invest in business operations, and expand their enterprises in Makindye Municipality.

The findings in Table 7 also show that there is a significant positive relationship between collateral security and growth of SMEs, affirmed by (r = .844**, $p < .01$). This indicates that when SMEs are able to meet collateral requirements set by financial institutions, their chances of accessing credit improve, which consequently enhances business investment, expansion, and overall growth. This suggests that the availability and acceptability of collateral security play a critical role in improving SMEs' access to financing and strengthening their business performance.

Finally, the findings in Table 7 show that there is a significant positive relationship between credit information access and growth of SMEs, affirmed by (r = .776**, $p < .01$). This implies that when SMEs have adequate access to reliable credit information such as loan opportunities, lending procedures, and financial guidelines, their ability to secure financing and plan business investments improves significantly. This indicates that access to accurate and timely credit information enhances financial decision-making and contributes to the sustainable growth of SMEs in Makindye Municipality.

CHAPTER FIVE

SUMMARY, DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter summarizes all findings reported in chapter four according to questions of the study, draws conclusions, suggests recommendations and also proposes some areas for further study.

5.1 Summary of findings

The findings revealed that interest rates have a significant influence on the growth of SMEs in Makindye Municipality. The majority of respondents agreed that high interest rates limit their ability to obtain loans, reduce profitability, and discourage borrowing, while affordable and lower interest rates encourage SMEs to apply for credit and expand their business operations. The results also show that fluctuating interest rates make it difficult for SMEs to plan long-term investments, highlighting the importance of stable borrowing conditions for business growth. Overall, these findings demonstrate that favorable interest rate conditions enhance SMEs' access to credit, improve financial planning, and support business expansion. This relationship is further supported by the correlation results which revealed a significant positive relationship between interest rates and growth of SMEs ($r = .753^{**}$, $p < .01$), indicating that manageable interest rates play an important role in promoting the growth of SMEs in Makindye Municipality.

Furthermore, the findings established that collateral security significantly influences the growth of SMEs in Makindye Municipality. The majority of respondents agreed that collateral requirements affect their ability to access loans, and that strict collateral conditions as well as high collateral values required by lenders discourage many SMEs from seeking credit. Although some SMEs reported having adequate assets that can be used as collateral and acknowledged that the availability of acceptable collateral has helped them access credit for expansion, many respondents emphasized that flexible collateral requirements would greatly improve their chances of obtaining financing. Overall, the results suggest that while collateral can facilitate access to credit when available, strict collateral conditions often limit SMEs' borrowing capacity and business growth. This is further supported by the correlation results which revealed a significant positive relationship between collateral security and growth of SMEs ($r = .844^{**}$, $p < .01$), indicating that the availability and acceptability of collateral security play a crucial role in improving SMEs' access to credit and enhancing their business expansion and performance.

Lastly, the findings revealed that access to credit information strongly influences the growth of SMEs in Makindye Municipality. The majority of respondents agreed that having adequate information about available credit facilities, clear loan terms, guidance on application procedures, and awareness of different lending options improves their ability to secure financing, make informed borrowing decisions, and plan business operations effectively, while limited access to credit information creates barriers to obtaining funds. Overall, the results suggest that reliable and timely credit information enhances SMEs' financial decision-making, operational capacity, and investment planning. This is further supported by the correlation analysis, which revealed a significant positive relationship between credit information access and growth of SMEs ($r = .776^{**}$, $p < .01$), indicating that improved access to accurate financial information directly contributes to business expansion and sustainable growth in Makindye Municipality.

5.2 Discussion of findings

5.2.1 Relationship between interest rates and the growth of SMEs

The results of the research indicated that Makindye Municipality's SMEs' development is strongly influenced by interest rates. While cheap and lower interest rates inspire SMEs to seek credit and grow their businesses, most of those polled said that high interest rates limit their capacity to get loans, lower profitability, and inhibit borrowing. The results support the claims made by Abdulsaleh and Worthington (2013), who said that high borrowing rates make it harder for small and medium-sized businesses (SMEs) to get money from outside sources, which would limit how much they could grow. Ambrose (2021) also discovered that sensible interest rates help small Ugandan businesses grow and improve their finances. Contrasting with the conclusions of this study, Bajçinca (2015) on the other hand claimed that in some growing nations, interest rates are not usually a major deterrent to SME investments.

Stable borrowing conditions are especially important since the study results further showed that SMEs find it challenging to plan long-term investments when interest rates fluctuate. This is consistent with the research by Calice et al. (2012), who discovered that erratic lending rates generate financial uncertainty for East African SMEs, therefore reducing investment and expansion. Likewise, James and William (2018) found that erratic interest rates reduce SMEs' capacity to participate in long-term growth plans and strategic financial planning. Conversely, Tsujimura and Tsujimura (2022) asserted that some businesses use internal financial mechanisms to respond to interest rate variations, which might not always hinder development, a result that contrasts with the present study.

The study also showed that good interest rate conditions help small and medium-sized businesses get credit, help them grow, and make their financial planning better. This is in line with Muhire and Olyanga (2022), who found that in Kampala, reasonable lending terms raise small and medium-sized enterprises' ability to borrow and sustainability. Msomi and Maharaj (2022) further said that easy and cheap credit boosts SMEs' operating capacity and investment potential, therefore reinforcing the conclusions of the research. But Belás et al. (2017) discovered that even with cheaper interest rates, other things like how much collateral you need and how good you are with money are more important for growing a small business. This implies that just looking at interest rates might not be enough to tell if a business will grow or not.

5.2.2 Relationship between collateral security and the growth of SMEs

The results of the research indicated that the development of small and medium-sized businesses in Makindye Municipality is strongly influenced by collateral security. Most of the people surveyed said that their access to credit is sometimes limited by strict collateral criteria and high collateral values, whereas the availability of acceptable collateral helps companies grow. The results support the research by Duarte et al. (2017), who observed that, especially in less-developed nations, both corporate and personal collateral are very important in SME lending since they affect the simplicity with which businesses may obtain finance. Msomi and Maharaj (2022) likewise discovered that SMEs with sufficient collateral are more likely to get loans, therefore improving operational capacity and development potential. The study, however, conflicts with Bajçinca

(2015), who asserted that, while other institutional elements may occasionally exceed collateral in affecting access to credit, collateral requirements are not always the primary obstacle to SME investment.

The research results also showed that flexible collateral standards would greatly increase SMEs' likelihood of receiving loans, hence implying that strict lending rules can prevent financial inclusion. This supports the research by Sanni et al. (2020), who discovered that strict collateral requirements in Nigeria reduced SME borrowing and inhibited company development while flexible lending policies increased access to financial resources. Furthermore, Mutuku et al. (2023) found that lending flexibility, including reduced collateral needs, directly boosts SMEs' capacity to get credit and engage in development initiatives. On the other hand, Nkwabi and Mboya (2019) maintained that some SMEs use other financing options to overcome stringent collateral requirements, implying that collateral flexibility is not the only factor influencing SME development everywhere.

The study results also showed that SMEs that have enough and acceptable collateral are more likely to get credit for growth, which shows how important collateral is for making businesses grow. Muhire and Olyanga (2022) confirm this by pointing out that in Nakawa Division, Kampala, the availability of business assets as collateral increased the borrowing power of SMEs and helped to sustain company growth. Likewise, William et al. (2020) discovered that management strategies that guarantee the correct use and documentation of collateral enhance credit availability and aid the development of SMEs. Peace (2011) noted, however, that in rural regions, even with collateral available, things like financial literacy and institutional flaws may limit access to loans, therefore implying that collateral alone cannot ensure SME development without supporting financial and institutional systems.

5.2.3 Relationship between credit information access and the growth of SMEs

According to the study results, availability of credit information significantly affects the development of small and medium-sized businesses in Makindye Municipality. Respondents said that knowing enough about different types of loans and credit options helps them make smart borrowing decisions and get money for their business to run. The results concur with those of

Abdulsaleh and Worthington (2013), who highlighted that SMEs' understanding of financial instruments and clear knowledge of credit terms helps them to obtain finance and promotes business expansion. Ambrose (2021) likewise discovered that the degree to which firms in Kabale Municipality had access to money was greatly influenced by the availability of timely and accurate credit information, hence enhancing the operational performance of SMEs. The results, however, conflict with Bajçinca (2015), who asserted that market unpredictability limited the direct influence of information on investment decisions even with access to credit information for small and medium-sized businesses in Kosovo. Other structural obstacles were market uncertainty.

Furthermore, research results showed that knowledge of many lending possibilities and direction on credit application processes help SMEs to get loans and properly manage their firms. Calice et al. (2012) found that in East Africa, structured financial institution advice on application procedures raised the success rates of small- and medium-sized businesses in getting bank finance, so this fits with the literature. Furthermore, Msomi and Maharaj (2022) said that SMEs in South Africa who were given correct advice and had easy access to clear lending information were more likely to get credit, which would help them grow. On the other hand, Peace (2011) pointed out that in rural Uganda, just having access to information wasn't enough to ensure that businesses could get loans. This was because things like bad management and low financial knowledge sometimes made it hard for companies to turn information into real borrowing.

Moreover, the research results showed that whereas good information enhances operational efficiency and encourages sustainable growth, poor access to trustworthy credit data inhibits SMEs' financial planning and investment ability. Wasiuzzaman et al.'s (2020) study on the Malaysian manufacturing sector revealed a strong link between SMEs' capacity to plan and properly manage money and the availability of reliable credit information, therefore relating with the literature. Likewise, Muhire and Olyanga (2022) observed that timely access to financial information helped SMEs in Nakawa Division, Kampala, improve their investment outcomes and decision-making. However, Shosha (2014) maintained that although knowledge of credit is crucial, other aspects including market circumstances and management skill may occasionally have a greater impact on the performance of small and medium-sized businesses, hence information access alone may not completely explain company expansion.

5.3 Conclusion

The study concludes that Makindye Municipality's SMEs' expansion depends heavily on interest rates. While low and constant interest rates promote credit uptake and company development, high interest rates were found to limit SMEs' ability to access loans, lower profitability, and deter borrowing. Fluctuating interest rates also caused unpredictability that made it difficult to plan for investments over the long term. The research generally emphasizes the need of reasonable and predictable borrowing costs for bettering the financial access, planning, and operational development of SMEs.

Furthermore, study concludes that SMEs’ access to finance and general company development depend much on their collateral security. Strict collateral rules and high asset value demands sometimes serve as obstacles that limit small and medium-sized businesses' borrowing ability, even while the availability of acceptable collateral promotes loan access and encourages company growth. Reasonable and flexible collateral requirements were discovered to boost SMEs' likelihood of receiving credit, therefore directly affecting company investment decisions and growth potential by collateral policies.

Finally, the study concludes that Makindye Municipality that ultimately SME development depends most on access to credit information. Sufficient and dependable information on loan terms, application processes, lending choices, and credit facilities helps SMEs to make wise borrowing decisions, properly plan their activities, and obtain finance for growth. On the other hand, little access to reliable credit data inhibits financial decisions and limits chances for commercial expansion. Improving the accessibility and clarity of credit information is therefore essential for raising the operational capability and sustainable development of SMEs.

5.4 Recommendations

Based on the results of the study, the following recommendations are provided towards examining the relationship between credit accessibility and the growth of SMEs in Makindye Municipality, Kampala;

The research advises that, in Makindye Municipality, financial institutions should provide SMEs with reasonably priced and consistent interest rates since reasonable borrowing costs foster credit usage, aid long-term investment planning, and boost company expansion.

The study also urges banks and lending institutions to use flexible and sensible collateral policies so that SMEs with few resources may nonetheless obtain funding, therefore boosting their capacity to grow operations and enhance general corporate performance.

Furthermore, the study advises financial institutions to better distribute credit information, including clear loan terms, application methods, and range of lending choices, so that SMEs can make wise borrowing decisions and improve their functioning and investment planning.

In addition, research advises that governments and regulatory bodies should design regulations and support initiatives aimed at lowering obstacles to credit for small and medium-sized businesses, including the provision of guarantees or collateral support programs, so boosting SME access to finance and encouraging company expansion

Finally, the recommends the need for capacity-building initiatives that train SME owners on financial literacy, credit management, and strategic borrowing, as this would enhance their ability to access credit effectively, optimize financial planning, and achieve sustainable growth in Makindye Municipality.

5.5 Areas for further research

Further investigation should focus on how mobile banking and digital financial services help to increase credit availability for SMEs in urban areas such as Makindye. This can shed light on how corporate expansion and borrowing patterns are affected by technology-based platforms.

Further study should look at how government-backed credit guarantee programs affect SMEs' capacity to obtain finance. Knowing how well these programs work can help shape policies meant to lower borrowing limits for small companies.

Finally, a third area for further research is to explore the influence of non-financial factors, such as entrepreneurial skills, business networks, and managerial competence, on SMEs' growth alongside credit accessibility. This would provide a more comprehensive understanding of the drivers of SME development in Makindye Municipality.

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APPENDIX 1: Questionnaire

For owners or managers of selected SMEs in Makindye Municipality

Dear respondent,

I am Mbabazi Amelia a student of Business Administration at Uganda Christian University conducting research on “Credit accessibility and growth of SMEs in Uganda: a case of Makindye Municipality”. I assure total confidentiality of the information given to me during this research. This research will contribute to the award of my bachelor’s degree of Science in Accounting and Finance so I humbly ask you for your cooperation.

Section A: Personal Background Information

Tick where applicable

1. What is your gender?

a) Male ☐ b) Female ☐

2. What is your age group?

a) 21-30 years ☐ b) 31-40 years ☐

c) 41-50 years ☐ d) Above 50 years ☐

3. What is your highest level of education?

a) Primary ☐ b) Secondary ☐

c) Tertiary ☐ e) Others specify:……………………………………

4. Which kind of business do you operate in Mukono Municipality?

………………………………………………………………………………………………

5. How long have you been operating this business?

a) Less than 1 year ☐ b) 1-5 years ☐

c) 6-10 years ☐ d) Above 10 years ☐

Note: *In these subsequent sections, use the scale provided to tick in the box of the relevant answer that describes your opinion.* ***NB: 5=Strongly Agree, 4=Agree, 3= Not Sure, 2= Disagree and 1=Strongly disagree.***

Section B: Credit Accessibility

	Statements	**Responses**				
s. no	**Interest rates**	**5**	**4**	**3**	**2**	**1**
1	High interest rates charged by financial institutions limit my business's ability to obtain loans.					
2	Affordable interest rates encourage my business to apply for credit from financial institutions.					
3	Fluctuating interest rates make it difficult for my business to plan long-term investments.					
4	Lower interest rates have enabled my business to expand its operations.					
5	The interest rates charged on loans significantly influence my decision to borrow for business purposes.					
6	High interest rates reduce the profitability and growth potential of my business.					
s. no	**Collateral security**	**5**	**4**	**3**	**2**	**1**
1	The requirement for collateral security affects my business's ability to access loans from financial institutions.					
2	My business has adequate assets that can be used as collateral when applying for credit.					
3	Strict collateral requirements discourage my business from seeking loans from banks or financial institutions.					

4	The value of collateral required by lenders is often higher than what my business can provide.					
5	Flexible collateral requirements would increase my business's chances of obtaining credit.					
6	The availability of acceptable collateral has helped my business access credit for expansion.					
s. no	**Credit information access**	**5**	**4**	**3**	**2**	**1**
1	My business has access to adequate information about available credit facilities from financial institutions.					
2	Access to clear information about loan terms and conditions helps my business make better borrowing decisions.					
3	Financial institutions provide sufficient guidance on credit application procedures for SMEs.					
4	Limited access to credit information makes it difficult for my business to obtain financing.					
5	Awareness of different lending options improves my business's ability to secure credit.					
6	Access to reliable credit information has improved my business's financial planning.					

Section C: Growth of SMEs in Makindye Municipality

	Statements	**Responses**				
s. no	**Growth of SMEs**	**5**	**4**	**3**	**2**	**1**
1	My business has experienced an increase in sales revenue over the past few years.					
2	The number of customers served by my business has increased over time.					

3	My business has expanded its range of products or services in recent years.					
4	The number of employees in my business has increased as the business grows.					
5	My business has been able to invest in new equipment, technology, or infrastructure.					
6	The overall profitability of my business has improved over time.					

Thank you very much for your cooperation