

**ACCESS TO FINANCE AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM  
ENTERPRISES IN UGANDA: A CASE OF SELECTED SMEs IN EASTERN DIVISION, SOROTI  
CITY**

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**WJ22/MUC/BBA/073**

**A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS, IN PARTIAL  
FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A DEGREE OF BACHELOR  
OF BUSINESS ADMINISTRATION OF UGANDA CHRISTIAN UNIVERSITY**

**July, 2024**



**UGANDA CHRISTIAN  
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**DECLARATION**

I **Ekubu Jean Keneth** do hereby declare that this proposal titled, **Access to finance and financial performance of small and medium enterprises**, Uganda has been done as a result of my own efforts except instances where scholarly literature has cited and has never been submitted to any other Institution of Learning for any award.

**Signed**..... **Date**.....

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## **APPROVAL**

This Dissertation titled, “**Access to finance and financial performance of small and medium enterprises**”, Uganda has been submitted for examination with my approval as university supervisor.

**Signed:**



**Date:** 28/06/2024

**Mr. Otingole Paul**

**University supervisor**

## **DEDICATION**

This research is dedicated to my family members especially my wife Loyce Martha Ekubu, my son Trevor Elijah Odulai and my two lovely daughters Nicole Ekubu Muhindo and Audrey Ekubu Aleto for everything during my research report development to these last stages, indeed glory and honor goes back to the father our almighty God for provision and gift of life during my academic year of study.

God bless you all!

## **ACKNOWLEDGEMENTS**

My sincere gratitude to my university supervisor Mr. Otingole Paul and Lecturer Mwima Eric who patiently and tirelessly gave me all the necessary guidance and advice that made it possible for me to finish the research successfully may the almighty God generously reward you.

I cannot forget to thank Soroti city personnel especially from eastern division who granted me permission to conduct research in their organization, I am grateful to the administrators, staff and the entire community for their co-operation and support during my struggle.

Special thanks to my family, for the love and encouragement that enabled me to accomplish this task.

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## **LIST OF ABBREVIATIONS**

BDS	Business Development Services
GDP	Gross Domestic Product
IFC	International Finance Corporation
MFI	Microfinance Institutions
SIDP	Sustainable Industrial Development Policy
SMEs	Small and Medium Enterprises
USA	United States of America

## ABSTRACT

This study sought to examine the effect of access to finance on financial performance of small and medium enterprises in Uganda, a case of selected SMEs in Soroti city, Eastern division. The study objectives were to: To assess the effect of cost of credit and financial performance of SMEs in Soroti city, Eastern division; To examine the effect of collaterals security on financial performance of SMEs in Soroti city, Eastern division; To assess the effect of accessibility of financial institution on financial performance of SMEs in Soroti city, Eastern division. The study population was 120 respondents from the selected SMEs in Eastern division in Soroti City. The study employed purposive sampling and simple random sampling techniques in coming up with a sample size of 92 respondents. The primary data collection method used was a questionnaire. The collected data was analyzed using descriptive statistics in SPSS version 20. Linear and Multiple regression analysis were also used to determine the effect of the independent variables on dependent variables. The study found that cost of credit was significant in predicting the financial performance of SMEs with R square value = 0.846 and  $\beta = .920$  with p-value =  $0.000 < 0.05$ . The regression coefficient of cost of credit was positive and significant in predicting the financial performance. Further the study found that collateral security had R square value = 0.900 and  $\beta = .948$  with a p-value =  $0.000 < 0.05$ . The regression coefficient of collateral security was positive and significant in predicting financial performance. The study further found that Accessibility to financial institutions had significant effect in predicting financial performance with p-values of 0.000 less than 0.05, R square value = 0.812 and  $\beta = .901$ . The study recommends that Financial institutions should also modify their products to suit the financial requirements of small business entrepreneurs. The study additionally suggests that the government should strengthen fiscal policies promoting growth of small business entrepreneurs both for those nursing business ideas and those already in different engagements. Finally, the study recommends that Financial institutions should avail information to people in different areas using the available local channels like radios so that people can quickly get to know about their services rendered.

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.0 Introduction**

This chapter presents the Background of the study, Statement of the problem, Purpose of the study, Objectives of the study, Hypotheses, Scope of the study, Significance of the study, Definition of key terms and Conceptual framework.

### **1.1 Background of the study**

#### **1.1.1 Historical perspective**

Access to finance is defined as the ability of individuals or enterprises to obtain financial services, including credit, deposit, payment, insurance, and other management services, (Waithanji, 2014). Access to finance is referred to as a programme which directly lend all or part of money to firms (for example public loans or subsidized loans); guaranteed or partly guaranteed loans; provide finance education or information to firms (for instance, about financial services available); facilitate alternative forms of lending (for example, business angels, micro-finance, venture capital and group lending), by creating networks, incentivizing or matchmaking lenders and firms (Rajnoha et al., 2019). Accumulated evidence has shown that financial accessibility promotes growth for enterprises through the provision of credit to both new and existing businesses. Financial accessibility is a major factor affecting the performance of Small and Medium Enterprises in most countries. Access to financing is critical to enable SMEs contribute to the economic development of the country (Hasnah, Saniza, Jayaraman, & Ishaka, 2015).

Performance is defined as the extent to which the target task of the small and medium scale businesses is accomplished in comparison to the final output at the end of a business period (Yıldız et al., 2014). The performance of SMEs in both developed and developing countries has gained support for continuous development over the years. This is because of the contribution of SMEs to the employment creation. Evidence shows that a dynamic and growing SMEs sector can contribute to the achievement of a wide range of development objectives, including: the attainment of income distribution and poverty reduction; creation of employment; savings mobilization; and production of goods and services that meet the basic needs of the poor (Yeboah, Kwadwo and Adigbo, 2014).

Financial performance of SMEs can be measured by total sales, liquidity, and profitability (Kelley and Nakosteen, 2015). Maintaining optimal liquidity demonstrates that there are economies of

scale associated with the cash levels required to confront the normal transactions of the firm. Sales growth is often used as a measure of performance. It has been argued that if sales increase, profits will eventually follow. Information on financial performance is useful in predicting the capacity of the enterprise (Nyanzi, 2015).

Padma et al. (2012) found that in India, young firms that grow have twice the probability of survival as young non-growing firms. It has also been found that young growth leads to the firm's profitability temporarily, but increase it in the long run. The performance of SMEs is believed to be a desirable end as the key drivers of employment and economic development.

Small enterprises are enterprises which employ between 5 and 49 employees and have a total asset of at least UGX 10 million but not exceeding 100 million. The medium enterprise, therefore, employs between 50 and 100 workers with total assets more than UGX 100 million but not exceeding UGX 360 million (Kakuru, 2015).

SMEs are defined as small enterprises employing a minimum of 5 people and a maximum of 50 people, with an annual sales/revenue turnover of more than UGX 360 million and total assets of more than UGX 360 million (Turyahebwa et al., 2013). The contribution of SMEs to Uganda's economy is well over ninety per cent (90%) of the total non-farm private sector employment, approximately 2% of the national Gross Domestic Product (GDP), and over 20% of incomes of the labour force (Nyanzi, 2015). However, ninety per cent of small and micro enterprises collapse in their first year of start-up, due to lack of access to credit (Arinaitwe and Mwesigwa, 2015). The term Small and Medium Enterprises (SMEs) covers a wide range of definitions and measures, varying from country to country and between the sources reporting SME statistics. Although there is no universally agreed definition of SMEs, some commonly used criteria are the number of employees, value of assets, value of sales and size of capital. In Uganda, SMEs are officially defined based on both the number of people employed and annual turnover of the enterprise (Turyahebwa et al., 2013).

In Uganda, a 'Medium Enterprise' is defined as an enterprise employing up to four people, with an annual sales/revenue turnover or total assets not exceeding UGX 10 million. On the other hand, Small Enterprises employ between 5 and 49 workers and have total assets of at least UGX 10 million but not exceeding 100 million. The Medium Enterprise, therefore, employs between 50 and 100 workers with total assets more than UGX 100 million but not exceeding UGX 360

million. The SME Division (SMED) of Uganda Investment Authority supports and facilitates the development of MSMEs that are majorly domestic entrepreneurs (Odongo, 2014).

In transition and developing countries, SMEs play a major role because about 90 per cent of all firms outside the agricultural sector, constitute as major source of employment and contribute significantly on domestic and exports earning (International Finance Corporation, 2010). The SMEs development emerges as a key instrument in poverty reduction efforts, despite globalization and trade liberalization ushering in a new opportunity as well as challenge for SMEs. The majority of SMEs have been less able to survive under the situation and are frequently under pressure on domestic markets from cheaper imports and foreign competitions (OECD, 2004).

Dalberg Global Development Advisors (2011) say access to finance is necessary to create an economic environment that enables firms to grow and prosper; SSEs in developing countries face significant barriers to finance. International Finance Corporation (2010) provides statistics on the finance gap being far bigger when considering the micro and informal enterprises 65 to 72 per cent of all SMEs (240-315 million) in emerging market lack access to credit.

Small and medium enterprises are the backbone of many economies in Sub-Saharan Africa (SSA) and hold the key to possible revival of economic growth and development. Despite the substantial role of the SMEs in Sub-Saharan Africa economies, they are denied official support, particularly credit, from institutionalized financial services organizations that provide funds to businesses. According to Madole (2013), these enterprises account to more than one half of the economic activities of the countries within the sub- region, by contributing about 12% and 34% of rural and urban employment activities in Tanzania. A lot of evidence has pointed to the fact that the number of these enterprises in Tanzania is declining at an alarming rate and little has been achieved there (Madole, 2013). The performance of SMEs in Uganda is increasingly taking the role of the primary vehicles for the creation of employment and income generation through self-employment, and therefore, have been tools for poverty alleviation (Turyahebwa et al., 2013).

Access to finance from MFI's in Uganda and other East African States is seen as the best alternative source of capital for low-income earners and their SMEs as a means to raise their income, hence enhancing their performance and contributing in country's economy (Ledgerwood et al., 2012). Access to finance by the majority of Ugandans who are low-income earners have

created opportunity to them including managing scarce household and SME resources more efficiently, protection against finance risks by taking advantages of investment opportunities and gaining economic returns

### **1.1.2 Theoretical perspective**

This study was guided by Trade-off Theory by Zechner (1989). The theory argues that attainment of optimal liquidity level is the ultimate aim of any organization. This is largely because it implied that SMEs are in a position to strike a balance between the cost of holding cash and the benefits accrued thereafter. The theory thus states that the financial policy of SMEs is complicated more when there is presence of external financing which involves asset management and the liability clause.

### **1.1.3 Conceptual perspective**

Financial constraints are higher in developing countries in general, but SMEs are particularly constrained by gaps in the finance system such as high administrative costs, high collateral requirements, lack of experience within finance intermediaries, lack of lender information and regulatory support to engage in SMEs lending and absence of well-functioning SMEs lending markets (International Finance Corporation, 2010).

In Tanzania, it is estimated that about a third of the gross domestic product (GDP) originates from the SME sector (Olomi, 2006). By having climate that promotes growth and development, the society at large can reap the benefits of this; at present 60-70% of net job creation in Tanzania is derived from this category of SMEs. Consequently, in a competitive market there should be an incentive from finance supplier to overcome the highlighted barriers and gaps in order to finance SMEs (Olomi, 2006).

Furthermore, Oyen and Gedi (2012) argued that 70 per cent of entrepreneurship in Tanzania did not receive training before starting of the business; therefore, they have weak business records and management skill, low level of business association member which means gaps in knowledge of services providers due to the lack of credit facilities make most of SMEs rely on their own saving, trade credit and relative or friend as sources of finance and very limited chances to access external finance.

The Ministry of Industry and Trade (2003) says that in Tanzania a number of policies, strategies, government schemes and programmes have been designed to promote the private

sector through some of policies like sustainable industrial development policy (SIDP) for the purpose of showing the opportunities through the development of medium, small scale and micro enterprises can provide and the countries should look on other source of finance rather than bank only -- like venture capital, leasing and factoring houses mostly adopted in developed countries and south Africa use this method of finance to expand the market lending for SMEs.

Hansen et al. (2012) also addresses the issue of SMEs credit guarantee scheme implemented by the government of Tanzania through Bank of Tanzania, to provide some amount of money to commercial bank so as wide-ranging extent of provide credit to SMEs. But the scheme did not reach its target because of lack engagement with financial institutions and uncertainty of government regulation as the most significant barrier, so access to finance is still a major problem on SMEs' performance in Tanzania.

In a study with its focus 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. He further noted that many potential beneficiaries fear such credit due to high interest rates, while others are not informed on the availability of more affordable services on offer.

Okello (2010) stated that youth owned and operated small enterprises perform poorly, majorly due to inadequate accessibility to finance. Access to financial services is also faced by problems of clients having poor or bad security and therefore in case of a clients' death, it is not easy to recompense (Agwana, 2013). More often small businesses encounter bottle necks of growth and performance as accessing financial services remain a tall order for many establishing entrepreneurs (Ondago, 2012). Being small business holders, the clients do not have much capacity to access financial services from commercial banks and microfinance institutions (MFIs).

Small and medium Enterprises (SMEs) are seen as a driving force for the promotion of an economy (Khan and Jawaid, 2004) and they contribute immensely to the economic development of any country (Abor et al., 2010).

#### **1.1.4 Contextual perspective**

SMEs in Uganda contribute 20% to Gross Domestic Product and they provide employment to over 1.5 million people which accounts for 90% of total non-farming private sector workers (UIA, 2008). The benefits of the small and medium enterprises in the 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 (Ernst &Young, 2011).

Regardless of the significant contribution of small and medium enterprises to the Ugandan economy, the potentials of the SMEs have not been exploited fully and this is a concern of all stakeholders in the economy (UNCTAD, 2002; Ekanem, 2010; Tushabomwe-Kazooba, 2006). These very concerns abound elsewhere (Cookey, 2001; Ihembe, 2000; Ojaide,1999). At the height of a number of initiatives undertaken by the government of Uganda aimed at improving and promoting the business environment, reduce the cost of compliance with business regulations, the reforms have not improved the situation as the performance of SMEs in Uganda is still below the expectation (UIA, 2008; Ernst & Young, 2011) and this poses a threat to the Ugandan economy since SMEs are great contributors to the GDP.

SMEs in Uganda face many obstacles including corrupt governance structures, unfavourable macro-economic environment, debilitating physical infrastructure, and multitudes of administrative challenges. However, inadequate access to financing continues to be one of the most significant impediments to creation, survival and growth of SMEs in Uganda, (International Finance Corporation, 2010).

On both side of the lender and borrower some research has been done on several aspects trying to address the needs of SMEs. For example, Kira and He (2012) express the impact of firm characteristic in access to finance by looking on the SMEs side on the size of the business, age, location of the firm, gender how they are constrained to SMEs performance, but the research did not say about the access to finance and performance of small-scale enterprises. There are several problems with the way banks control the network which allows money to flow in the economy and the way banks serve small scale sized enterprises in the market on the issues like collateral, interest charge on loan, bureaucratic procedure and policy for finance system support is still a problem in Uganda especially in Soroti city, Eastern division.

## **1.2 Statement of the problem**

Access to finance is crucial for the survival and growth of SMEs, which is necessary for economic transformation and development (Godin & Hindriks, 2015). The financial performance of small and medium enterprises continues to be a growing concern for Uganda (Auditor General's Report, 2017). The non-access to finance by SMEs has an adverse effect on their growth, survival and the overall well-being (Mukunda, 2017). To stimulate the performance of SMEs, there is need to ensure better access to finance therefore enhancing finance access by SMEs is likely to result into better financial performance of SMEs.

Government through the ministry of trade and Uganda Investments Authority has tried to stimulate access to finance for SMEs through providing low interest funds to SMEs under Uganda Development Bank (UDB), providing loans without collateral requirements. Government has also rolled out a number of forums for disseminating information about finance access by SMEs countrywide in a bid to enhance financial performance of SMEs in terms of profits, sales growth, cash flow and liquidity (UIA, 2018).

However, despite the above efforts, recent reports continue to show limited progress among these enterprises in terms of decreased sales and achieving low profitability hence threatening their survival (BOU Report, 2018; PSFU Annual Report, 2018; UIA Report, 2017). For instance, the recent data shows that out of 10 SMEs in Uganda, only 3 survive to celebrate their second anniversary. The same reports indicate that the SMEs experience solvency, liquidity challenges which access to finance is supposed to address thus if such performance trends continue to adhere to the operations of the SMEs, it is most likely that they may collapse.

It is upon this background that the researcher intends to explore effect of access to finance and financial performance among small and medium scale enterprises particularly in Soroti city, Eastern division. This study will then act as a basis to inform authorities to improve on access to finance for better financial performance of SMEs in Soroti city, Eastern division which is currently taking a negative and worrying trend.

### **1.3 Purpose of the study**

The purpose of the study was to examine the effect of access to finance on financial performance of small and medium enterprises in Uganda, a case of selected SMEs in Soroti city, Eastern division,

### **1.4 Specific objectives**

- i. To assess the effect of cost of credit and financial performance of SMEs in Soroti city, Eastern division
- ii. To examine the effect of collaterals security on financial performance of SMEs in Soroti city, Eastern division
- iii. To assess the effect of accessibility of financial institution on financial performance of SMEs in Soroti city, Eastern division

### **1.5 Hypotheses**

- i. There is insignificant effect of cost of credit on financial performance of SMEs in Soroti city, Eastern division
- ii. There is insignificant effect of collateral security on financial performance of SMEs in Soroti city, Eastern division
- iii. There is insignificant effect of accessibility of financial institutions on financial performance of SMEs in Soroti city, Eastern division

### **1.6 Scope of the study**

#### **1.6.1 Content scope**

The study was limited to access to finance and financial performance of small and medium enterprises in Uganda, a case of selected SMEs in Soroti city, Eastern division specifically on the effect of collateral security on financial performance, the effect of accessibility of financial institutions on financial performance, and the effect of cost of credit on financial performance of selected SMEs in Soroti city, Eastern division.

#### **1.6.2 Time scope**

Under this study, credible research documentation literature and scenarios of the period between years 2019 to 2023 was considered and reviewed. Period is considered as benchmark; given that this is when the SMEs under study experienced poor financial performance given the Government efforts to make finances accessible for the SMEs.

### **1.6.3 Geographical scope**

The study population was drawn from SMEs in Soroti city, Eastern division in Eastern Uganda. This study area is selected because according to PSFU Annual Report (2018), it is named among the hosts of the worst performing SMEs regardless of the support from both government and other developmental partners across the globe.

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

**Policy makers and Implementers:** The findings from the study may be helpful to and municipality policy makers in exploration and exposing different weakness with in programs implemented by the governing bodies in the due course of strengthening the performance of these enterprises and understanding their level of financial literacy for further support.

**Development partners:** The study findings would explain the financial literacy levels among firms and enterprises so that causes of poor performance and weakness be identified and strategies be developed to enhance financial literacy for better financial decisions.

The study was hoped to be found useful by several individuals and organizations in different ways in the domain of business practice and theory.

Small and medium business entrepreneurs, both nursing business ideas and those already in different engagements, may gain from the findings of the study by being informed of the various finance mobilization strategies to adopt to obtain funds from existing financial institutions.

Besides, the entire finance sector may also acquire more insight into small business sector to formulate policies that would ensure more attractive financial services s are rolled out to meet the ever-swelling business constituents, both to the success of financial institutions and the small business sector.

Moreover, the government, in its quest to address issues of unemployment and poverty eradication, may be sensitized to formulate more favorable policies that would enhance vigor in engaging in sustainable economic development.

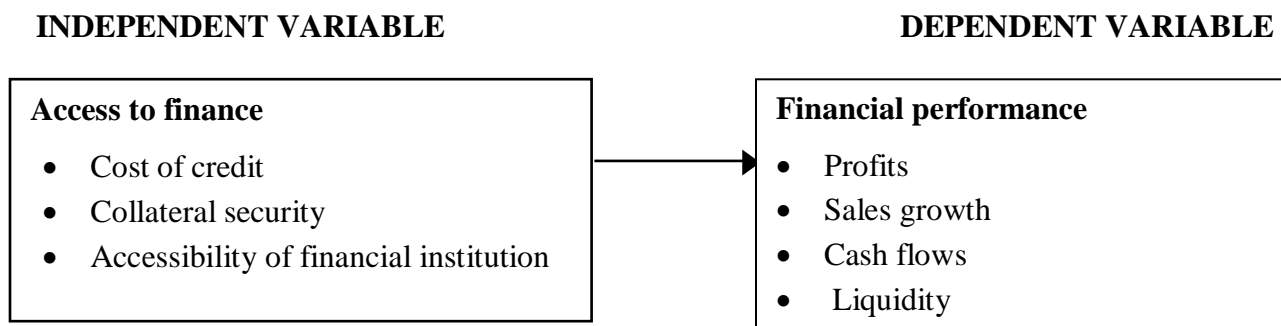
### **1.7 Conceptual framework**

The conceptual framework is the system of concepts, assumptions, expectations, beliefs, and theories that supports and informs the research and it is a key part of the design (Miles & Huberman, 1994; Robson, 2011). Miles and Huberman (1994) defined a conceptual framework as

a visual or written product, one that “explains, either graphically or in narrative form, the main things to be studied; the key factors, concepts, or variables and the presumed relationships among them” (p. 18).1. The conceptual framework offers many benefits to a research; A conceptual framework is used to illustrate what the researcher expect to find through the research, including how the variables considered in the study might relate to each other.

Thus, for this study Access to finance is the independent variable while financial performance is the dependent variable. Norman *et al.*, (2010) established the following variables to measure Access to finance: cost of credit, collateral security and accessibility of financial institutions. Gerrit and Mohammad (2010) indicated that financial performance in organizations is measured by profits sales growth, cash flows and liquidity. The study will adopt cost of credit, collateral security and accessibility of financial institutions as the indicators of access to finance as well as profits sales growth, cash flows and liquidity as the indicators of financial performance.

**Figure 1: Showing the conceptual frame of the study variables**



*Source: Norman et al (2010), Gerrit and Mohammad (2010) as adapted by the Researcher*

According to Figure 1: Access to finance positively contributes to financial performance. The dimensions of access to finance are stated by three variables; cost of credit, collateral security and access to information. Similarly, the dimensions of financial performance are; profits, sales growth, cash flow and liquidity. Norman *et al.*, (2010) holds that cost of credit, collateral security and accessibility of financial institutions to information directly affects levels of financial performance measured by profits, sales growth, cash flow and liquidity. However, unless controlled the contribution of access to finance on financial performance may be either positive or negative.

### **1.8 Definition of key terms**

**Access to information:** Ability of the business holders to obtain crucial information on financial services s.

**Cost of credit:** The bank charges and levies on bank facilities enjoyed by lenders from financial institutions.

**Collaterals:** A pool of assets offered as security against the credit obtained from a financial institution.

**A Small Enterprise;** These businesses operate from fixed premises that are of a permanent nature

**A Medium Enterprise;** these are very well-established businesses, which may employ up to 100 people.

**Performance** is process or manner by which SMEs execute their function.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter describes and relates what other scholars had noted down about the topic. The researcher got information from different and related sources or scholars, journals and websites that all point and are related to this study. These sources of information were believed to contain relevant data that helped the researcher. This chapter will cover theoretical underpinnings and empirical findings resulting from the previous studies carried in different industries or sectors.

#### **2.1 Theoretical Review**

A theoretical review is the ‘blueprint’ or guide for research (Grant & Osanloo, 2014). It is a framework based on an existing theory in a field of inquiry that is related and/or reflects the hypothesis of a study. It is a blueprint that is often ‘borrowed’ by the researcher to build his/her research inquiry. It serves as the foundation upon which research is constructed.

##### **2.1.1 Trade-off Theory**

Trade-off Theory was put across by Zechner (1989). The theory argues that attainment of optimal liquidity level is the ultimate aim of any organization. This is largely because it implied that SMEs are in a position to strike a balance between the cost of holding cash and the benefits accrued thereafter. The theory thus states that the financial policy of SMEs is complicated more when there is presence of external financing which involves asset management and the liability clause. SMEs can therefore gain profitability through weighing off the borrowing cost against the end result benefit. In this case, the cost of borrowing includes bankruptcy cost and payment of interest. The researcher also argues that cost of borrowing should depend on collateral securities one has.

Debt financing is theorized to have benefits such as discipline instilled in SMEs and the taxes to be deducted. From the debts that SMEs has, it can be able to increase the net flow in profits, cash flows hence acting as a source of working capital.

The theory however faces criticism from other scholars who argue that the debts should not be used without limitations as this may increase the bankruptcy chances (Baxter, 2007). The

relevance of the theory to the study is thus it links the finance structures such as financing practices, access to finance, budgeting and working capital management in firms to be directly linked to debt financing. The theory provides a basis of further understanding the impact of financing practices such as debt financing has on how SMEs perform. Based on this theory, the performance of the SMEs in Soroti city, Eastern division is highly determined by the efficiency and reliability of their financing practices and access to finances. The researcher agrees with Baxter's views.

## **2.2 Empirical Review**

This section reviewed the existing empirical studies on Access to finance and financial performance according to objectives.

### **2.2.1 Effect of cost of credit on financial performance of SMEs**

Cost of credit is measured by all charges and levies on the amount of loan borrowed from a commercial lending institution and given that these institutions are also in business, their major goal is to make as much profit as possible (Doni, 2012). In this light, when the cost of credit is seen by small business holders as very high, then chances to go for these get slim. Interest-rate targets are a vital tool of monetary policy and are considered when dealing with variables like investment, inflation and unemployment. The researcher agrees with the statement because it is true that when the cost of credit is seen by small business holders as very high, then chances to go for these get slim.

Fiona (2008), in her study on Government's administrative burden on SMEs in East Africa concluded that Governments in the region have begun to recognize that lower-level policies and administrative procedures impose significant constraints on private sector development, stemming primarily from the command and control bureaucracies that characterized colonial governance. There are three priority areas for administrative reform: business licensing and registration, tax and customs procedures and specialized approvals.

Charitonenko and Rahman (2002), in their classical analysis "Undermining rural development with cheap credit", when poor people obtain business funds, they often rely on relatives or a local moneylender, whose interest rates can be very high and this influence how much one can borrow. An analysis of 28 studies of informal money lending rates in 14 countries in Asia, Latin America and Africa concluded that 76% of moneylender rates exceed 10% per month, including 22% that

exceeded 100% per month. Moneylenders usually charge higher rates to poorer borrowers than to fewer poor ones. While moneylenders are often demonized and accused of usury, their services are convenient and fast and they can be very flexible when borrowers run into problems. Hopes of quickly putting them out of business have proven unrealistic, even in places where microfinance institutions are active. The rate of interest charged on the credit determines the cost of the credit. The cost of credit is the amount of money a client is obligated to pay above the principal sum of money lent.

Donald et al. (2013) in the study focusing on Management of Business Challenges Among Small and Micro Enterprises in Astra found out that SMEs face the challenges of competition among themselves and from large firms, lack of access to credit, cheap imports, insecurity, high interest rates and debt collection. In the views of Poul (2012), although more businesses have become the customers of banks, the overall volume of credit has not necessarily increased. Taken together with a squeeze in demand for their products and high inflation, small businesses are not always eager for larger bank loans at higher interest rates. The researcher agrees with Poul in the above statement because it is true that although more businesses have become the customers of banks, the overall volume of credit has not necessarily increased.

Samy (2012) notes that interest rate plays the greatest role in finance transaction and if seen as too high, entrepreneurs tend to decline the loans advanced, as this defines the return on capital. Cost of credit can be classified as gross interest and net interest. Gross interest is the total amount that the debtor owes to a creditor and the net interest means the part of interest that is for the use of capital only. The interest rate usually, is a percentage of the borrowed amount, determined by the amount of interest over duration which may be a year. High interest rate therefore increases the cost of credit. A general lack of experience and exposure restricts small business holders from venturing out and dealing with banking institutions. Those who do venture out often find that transaction costs for accessing credit are high, and cannot be met by the cash available to them. Because of this, they are dependent on the family members for surety or collateral and hence restrict the money they borrow. This results in lower investments. Alternatively, they tend to find working capital at higher rates of interest. The availability of finance and other facilities, such as industrial sheds and land for women entrepreneurs are often constrained by restrictions that do not account for practical realities (Hannan, 2013).

High interest rate on credit may discourage small business holders from borrowing, hence reducing the accessibility of credit among them. Every business needs financing, even though at first glance it might appear that funding is unnecessary. It is important that financing be as efficient as possible (Jamal, 2013). He argues that the entrepreneur should be able to put the cost of all financing on the same basis, compare them and come up with the one that gives the lowest cost financing option. Banks have often been criticized for having high interest rates charged on loans. But sometimes, there are factors beyond their control. For example, the amount of interest payable on loans depend on interest rates charged, which is driven by the base lending rate of interest set by the Central Bank. The amount of interest rate charged is sometimes intertwined with the security of the loan, and the use for which it has to be used, or the nature of the business. That is the more secure loans are charged on low interest rates due to their low risks involved in Management (Peky, 2013), leads the low-income entrepreneurs to the micro finance institutions that lend unsustainable interests on short- term loans. The high interest rates, discourage women in this sector from borrowing. It is because the interest payment come out of profit and can be reduced by the borrowing business if profit and trading conditions are unfavourable.

According to Chalho (2012), although more businesses have become the customers of banks, the overall volume of credit has not necessarily increased. Taken together with a squeeze in demand for their products and high inflation, small businesses are not always eager for larger bank loans at higher interest rates. The researcher agrees with the above statement that high interest rates discourage the entrepreneurs in this sector from borrowing.

There are various other finance challenges that face small enterprises. They include the high cost of credit, high bank charges and fees. The scenario witnessed in Kenya particularly during the climax of the year 2008 testifies to the need for credit among the common and low earning entrepreneurs (Oeno, 2012). Numerous money lenders in the name of Pyramid schemes came up, promising hope among the 'little investors,' that they can make it to the finance freedom through soft borrowing. The rationale behind turning to these schemes among a good number of entrepreneurs is mainly to seek alternatives and soft credit with low interest rates while making profits.

### **2.2.2 Effect of collateral security on financial performance 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.

### **2.2.3 Effect of accessibility of financial institutions on financial performance of SMEs**

Availability and accessibility of lending institutions within the reach of ordinary business entrepreneurs has a great influence on SMEs' ability to go for such credit facilities offered, as people tend to face issues commonly encountered within their localities more easily than those remote to them (Mann, 2012). He further observes that some less learned business entrepreneurs even fear entering into the banks asking for credit facilities feeling inadequate, since according to them, these institutions remain the preserve of the learned lot. The researcher agreed with the statement Mann made that some less learned business entrepreneurs even fear entering into the banks asking for credit facilities feeling inadequate.

Bollon (2011), stated that commercial lending institutions in Bolivia were seen to be performing poorly in the credit business because they concentrated in the urban centres, far off from the local communities only giving loans to the business elites, but disregarding the rural entrepreneurs. Micro financial institutions therefore took this advantage and developed credit products that focused on the business needs of the rural business folks, hence improved their access to funds. Small and medium business enterprises (SMEs) sector is replete with individual entrepreneurs

whose credit history hardly works to their advantage, as the majority have often kept off visiting commercial lending institutions, as these institutions are just not accessible (Dery, 2011).

Reporting on his encounter with poverty eradication projects in Papua New Guinea among the rural Davie region, specializing on entrepreneurship, Elion (2011) noted that due to the absence of commercial loaning institutions from where business funds could be obtained, the goals of the projects remained a tall order to be achieved. He indicated that when an intensive campaign was mounted to have banks open up more branches in the rural areas, credit uptake increased tremendously, giving more entrepreneurs opportunities to access the bank products. The researcher agreed that due to the absence of commercial loaning institutions from where business funds could be obtained affects business performance.

The extent to which institutions reach out to small business holders and the conditions under which they do vary noticeably, but SME holders are at a disadvantage when an institution does not fund the type of activities solely run out by them (Aday, 2010). While formal institutions such as laws and policies can create opportunity fields for entrepreneurship, informal institutions such as values, norms and the general attitude of a society toward entrepreneurship can strongly influence the collective and individual perception of entrepreneurial opportunities.

Paulo (2010) contends that small scale firms tend to face greater financial constraints than do larger firms due to presence of fewer financial learning institutions dealing in their unique products. Small scale entrepreneurs operate in more difficult conditions than established ones. The constraints that impede all entrepreneurs such as political instability, poor infrastructure, high production costs, few lending institutions and non-conducive business environment, tend to impact more on small and medium sized business holders.

Kiriu (2011) notes that access to credit by many small-scale business borrowers is affected mainly by credit rating behaviour of few lending institutions which use descriptive statistics to analyze the role of institutional lending policies of formal and informal credit institutions in determining access to and uses of credit facilities by small-scale entrepreneurs in Kenya. In addition, women's entrepreneurial development is impeded by specific constraints such as limited access to key resources including land and credit, the legal and regulatory framework, and the socio-cultural environment. Furthermore, the combined impact of globalization,

changing patterns of trade and evolving technologies call for skills that the small business entrepreneur on the continent does not possess.

Recognizing the critical role small and medium sized enterprises play in the Kenya economy, the Government through Kenya Vision 2030 envisages the strengthening of SMEs to become the key industries of tomorrow by improving their productivity and innovation. However, it is generally recognized that SMEs face unique challenges, which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development. The International Finance Corporation (IFC) (2011) has identified various challenges faced by SMEs including lack of innovative capacity, few financial learning institutions, lack of managerial training and experience, inadequate education and skills, technological change, poor infrastructure, scanty market information and lack of access to credit. This is in line with the researcher's view that SMEs face unique challenges, which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development.

There are various other challenges that have continued to have negative impact on the growth of SMEs in Kenya. These challenges include but may not be limited to poor infrastructure, few lending institutions, insecurity and high cost of energy. There has also been unfavourable investment climate occasioned by poor governance, institutional failures, macroeconomic policy imperfections and inadequate infrastructure, as well as rampant corruption, bureaucratic red tape, weak legal systems and a lack of transparency in government departments (Pascal, 2010). The researcher agreed with the statement that SMEs face other challenges that include but may not be limited to poor infrastructure, few lending institutions, insecurity and high cost of energy.

In Kenya, market failures and few lending institutions have constrained SME innovation, as in many developing countries, by limiting the necessary access to information, finance, labour skills and business development services (BDS) to increase competitiveness and productivity. Lack of information and negative past experience with transactions is a common factor that limits the willingness of potential suppliers to take risks to adapt products to MSMEs (World Bank, 2014). This is in line with the researcher that lack of information and negative past experience with transactions is a common factor that limits the willingness of potential suppliers to take risks to adapt finance products

The number of lending institutions and their network of branches is a challenge to the accessibility of loans among Small and Medium Enterprises. A wide branch network enables a financial institution to have lower cost of funds. The cost of funds being the amount paid by the banks for its liabilities, including the loans business entrepreneurs borrow from other financial institutions. Banks take loans from other financial institutions in order to lend to the customers where their deposit base is insufficient to cover the amount lent. But a wide branch network brings with its significant operating expenses in the forms staff costs and structures (Business Daily, 2009). The researcher agreed that banks take loans from other financial institutions in order to lend to the customers.

### **2.3 Summary of Literature and Research gap**

There is little evidence of how small and medium sized enterprises access financial services to facilitate their performance, though Adonita (2014) stated that most banks accept only unmovable properties like land and buildings as collaterals which small business operators do not possess. Therefore, there is a big gap to be filled by the researcher after critical review. There is a need to research in Soroti city, Eastern division so as to come up with the dependable information so that effective recommendations and conclusions could be made.

Many studies done both in the global and local context have exhibited contextual, conceptual and methodological gaps. For instance, studies by Ljubsavijevic and Jovanovi (2011); Hutchinson and Zain (2009) were all done in other countries which is a different context from the current study which will be carried out in Soroti specifically looking at SMEs.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

This chapter covered the research methodology and description of the methods and techniques that were used in the collection of data. Kothari (2004) defines research methodology as a scientific and objective understanding of how research is conducted. Through it, various steps were employed in studying a research problem along with the logic behind them. This chapter was organized as follows: Research Design, Study Population, Research Procedures, Sample Size, Sampling Techniques, Data Sources, Data Collection Methods and Instruments, Quality Control Methods, Data analysis and Processing and Ethical Considerations.

#### **3.1 Research Design**

A cross-sectional design will be used. A cross-sectional study is the type of design where data is collected from many different individuals at a single point in time. Small and Medium sized enterprises (SMEs) in Soroti city, Eastern division were the focus of the study and are expected to provide a description of access to finance and financial performance of small-scale enterprises in Uganda. Quantitative research methods or approaches were used to collect primary data about the problem under investigation. In this study, the quantitative approach is used because it allowed the researcher to solicit more information that is numerically quantified (Mugenda & Mugenda, 1999).

#### **3.2 Study Population**

According to Steinke (2004), population is a well-defined collection of individuals or objects known to have similar characteristics. It is generally referred to a large collection of individuals or objects that is the main focus of a scientific query. A total population of 2510 SMEs was registered in 2019 (UNBS, 2019). The study target population was 120 respondents from the selected SMEs, comprising of 100 SME Employees, 05 SME owners and 15 managers.

#### **3.3 Sample size determination**

A sample size refers to the number of participants or observations included in a study. The size of a sample influences two statistical properties; the precision of our estimates and the power of the study to draw conclusions (Amin, 2005). The researcher used stratified sampling to divide the population into strata according to the different business sectors of trade, service. Simple random

sampling was used to select respondents from each stratum. The target population was 120 and a sample size of 92 respondents was considered for the study, which comprised of SMEs owners, managers and employees. The sample size was determined using the Krejcie and Morgan (1970) table.

<b>Respondents</b>	<b>Population</b>	<b>Sample</b>	<b>Sampling method</b>
SME employees	100	77	Simple random
Managers	15	12	Purposive
SME owners	5	3	Purposive
<b>Total</b>	<b>120</b>	<b>92</b>	

**Table 3.1: Showing sample size distribution of respondents.**

*Source: Uganda Business Directory, 2023 (Krejcie and Morgan Table 1970)*

### **3.4 Sampling Techniques**

#### **3.4.1 Simple random sampling**

Simple random sampling technique was used during the study. Siegel, (2004) defined simple random sampling as a procedure that ensures that each element in the population will have an equal chance of being included in the sample. It's applicable on large population with homogeneous attributes. The technique was used to sample the employees of SMEs. It is used because it is easy to implement with random sampling, requires minimal knowledge of the population needed and there is probability of achieving a representative sample. It also meets assumptions of many statistical procedures.

#### **3.4.2 Purposive sampling**

A purposive sample is a non-probability sample that is selected based on characteristics of a population and the objective of the study as remarked by Kotler, (2013). Purposive sampling was used on the owners and managers of SMEs.

### **3.5 Research procedures**

The researcher requested for an introductory letter from the Department of Business of Uganda Christian University to conduct research on Access to finance and financial performance of small and medium size enterprises in Uganda, a case of selected SMEs in Soroti city, Eastern division.

A copy of this letter was presented to respondents who were approached during data collection; questionnaires were distributed to the respondents and collected for analysis.

### **3.6 Data Source**

The data for the study was gathered from primary source that was generated from the field in order to drive to meaningful interpretation of findings. Data on Access to finance and financial performance of small-scale enterprises in Uganda, a case of selected SMEs in Soroti city, Eastern division was collected in order to achieve the objectives of the study.

#### **3.6.1 Primary Data**

Primary data is data was collected by a researcher from first-hand sources, using methods like surveys (Kanoga, 2016). The primary data was gathered from the respondents who were considered as key informants selected for the study. The researcher used questionnaires to gather data from respondents.

#### **3.6.2 Secondary Data**

Secondary data on the other hand is that data that is already available. That is, which had already been collected and analyzed by someone else and which had already been passed through the statistical process. For example, secondary data involved reading books, articles, performance reports and papers. This helps the researcher to have better and reliable information for the study.

### **3.7 Data Collection Instruments**

Data collection instruments are the tools which are used to collect the necessary information needed to serve or prove some facts (Mugenda and Mugenda, 2003). The researcher used questionnaires and interview guides that help to get data from both primary and secondary sources.

#### **3.7.1 Questionnaire**

A questionnaire is a set of systematically structured questions used by a researcher to obtain needed information from respondents (Munn & Drever, 2004). The Questionnaire comprised of open-ended and close-ended questions. These questions were in English so as to make concepts understood by the respondents. The study used questionnaires because they are easy and cheaper to administer to respondents and are moreover convenient for collecting information within a short span of time (Mugenda and Mugenda, 2003).

### 3.8 Data Quality Control

#### 3.8.1 Validity of the Instruments

Validity is the degree by which the sample of test items represents the content the test is designed to measure (Kombo & Tromp, 2006). Tools were constructed by the researcher as per the requirements of the study, tested and corrections were done as required in case they do not meet validity test recommendations before using to collect the data in the study. In this study the researcher used Content Validity index through the use of ratings from experts to ensure validity of the instruments as below. Amin (2006) puts it forward that for any instrument to be accepted as valid the overall average index should be 0.70 and above.

$$\text{CVI} = \frac{\text{No. of items regarded relevant by expert}}{\text{Total Number of items}}$$

**Table 3.2: Validity results**

<b>Expert</b>	<b>Items declared Valid</b>	<b>Total number of questions</b>	<b>Index</b>
Expert 1	18	19	0.94
Expert 2	18	19	0.94
Expert 3	17	19	0.89
<b>Average Total</b>			<b>(2.77/3) = 0.92</b>

*Source: Field study (2024)*

Therefore, the researcher considered the research instrument valid since the CVI obtained of 0.92 is above 0.7 as recommended by Amin (2006) as being acceptable

#### 3.8.2 Reliability of the Instruments

Reliability refers to the consistency of measurement and frequently assessed using the test-retest reliability method (Shanghverzy, 2007). It is a measure of how consistent the result of a test should be. In order to ensure the degree to which questionnaires produced consistent results if used under the same conditions, they will be pilot tested on 20 respondents who are not part of the sample and the results subjected to Cronbach alpha reliability. The questionnaires were given to 20 respondents to fill in and were collected for analysis. Raw data from these questionnaires was entered into a statistical program known as the Statistical Package for Social Scientists (SPSS). Using this program, the internal consistence (reliability) of the instrument was measured using Cronbach's Alpha coefficients for each variable. Cronbach's Alpha value of above 0.7 recommended by Kothari (2004) was considered as acceptable level of reliability.

**Table 3.3 Showing Reliability**

<b>Variable</b>	<b>Cronbach Alpha Coefficient</b>
Cost of credit	.977
Collateral security	.958
Accessibility of financial institutions	.972
Financial performance	.980
<b>Total</b>	<b>2.915/4 = 0.728</b>

Reliability test was conducted to generate Cronbach's Alpha which was used to determine reliability of the tool. Cronbach's Alpha value of 0.728 was obtained meaning the instrument was reliable as recommended by Kothari (2004).

### **3.9 Data Analysis**

After collection of data from the study site, Questionnaires were sorted to establish whether they are correctly filled. Only questionnaires that were correctly filled were considered. Data was coded using SPSS software to generate information.

Quantitative data was analyzed using descriptive and inferential statistics which included frequency, distributions, means, correlations and regressions. This method is important in determining trends and interpreting research findings.

### **3.10 Ethical Considerations**

The major aim of observing ethics during the research study is to ensure that the welfare and rights of the respondents are observed (Blanche and Durrheim, 2011). The researcher ensured that he sought consent from the respondents of the study population by assuring them that the information that was given to him was kept confidential, not revealed to third parties and was used for academic purposes only.

### **3.11 Limitations to the study**

Financial constraints especially where finance resources necessary in transport and other materials like small laptop computer for data recording may not be available but the researcher will try to improvise other means in collecting data such as writing on papers.

Time constraint; where the time given for the research may be limited. However, the researcher will try to use the little time that is available so that he accomplishes research in time.

## CHAPTER FOUR

### DATA ANALYSIS, PRESENTATION AND DISCUSSION OF FINDINGS

#### 4.0 Introduction

This chapter presents the detailed interpretation and discussion of study results. The chapter presents analyses of the results of the data collected based on the objectives and research questions formulated in chapter one. This chapter provides the details of both descriptive and inferential statistics, which include frequency distributions, means and regressions.

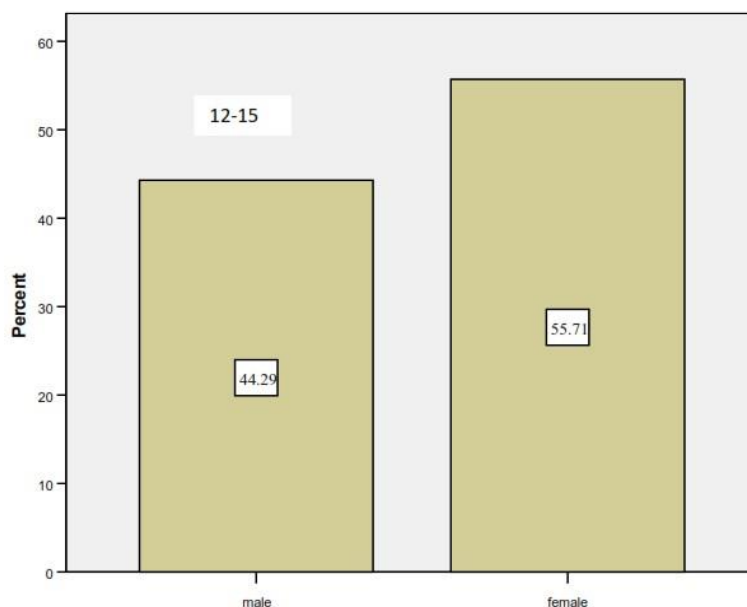
#### 4.1 Response Rate

The researcher administered 92 questionnaires to respondent. Out of the 92 questionnaires, 85 were appropriately filled and returned, representing 92.4% response rate. The 92.4 percent response rate was deemed substantial to do the analysis of the data collected in this study. This implied that information obtained was adequate for analysis and inference.

#### 4.2 Demographic characteristics of respondents

A total of Eighty-five (85) respondents were able to give adequate information for the study. The categories of respondents were trade and other business services, hotels and restaurants, Transport and financial services s. This demographic data was very essential for the researcher and the study in order to describe the most relevant respondents that were selected for the study.

**Figure 2: Gender of respondents**



From the study findings on the gender of respondents presented in Figure 2 above indicated that 55.71% (the majority of the

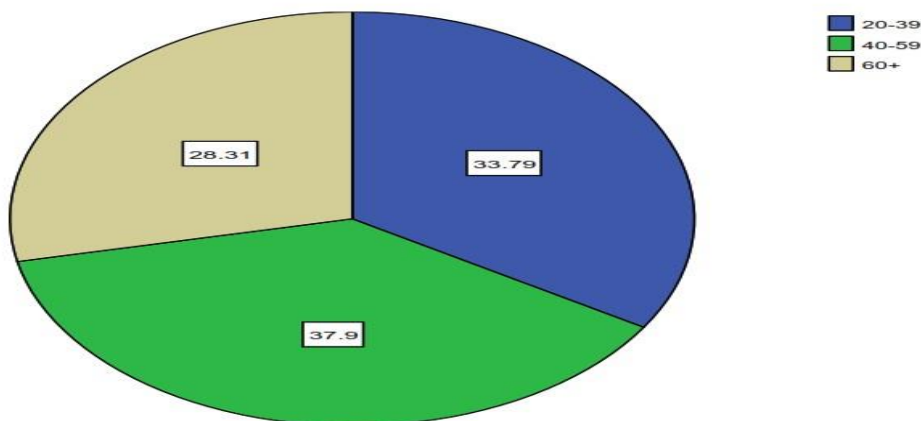
respondents) were females compared to their male counterparts in the study who composed 44.29% of the respondents. The number of females was higher than that of males due to the fact that females were able and available to keep in their businesses operating while the males had activities which took much of their time. The researcher considered the gender of respondents in order to get information to base on from different respondents.

#### 4.1.2 Age of respondents

The researcher considered the age of respondents as presented in Figure 1 below.

**Figure 3: Age of the respondent**

**Figure 1: Age of respondents**

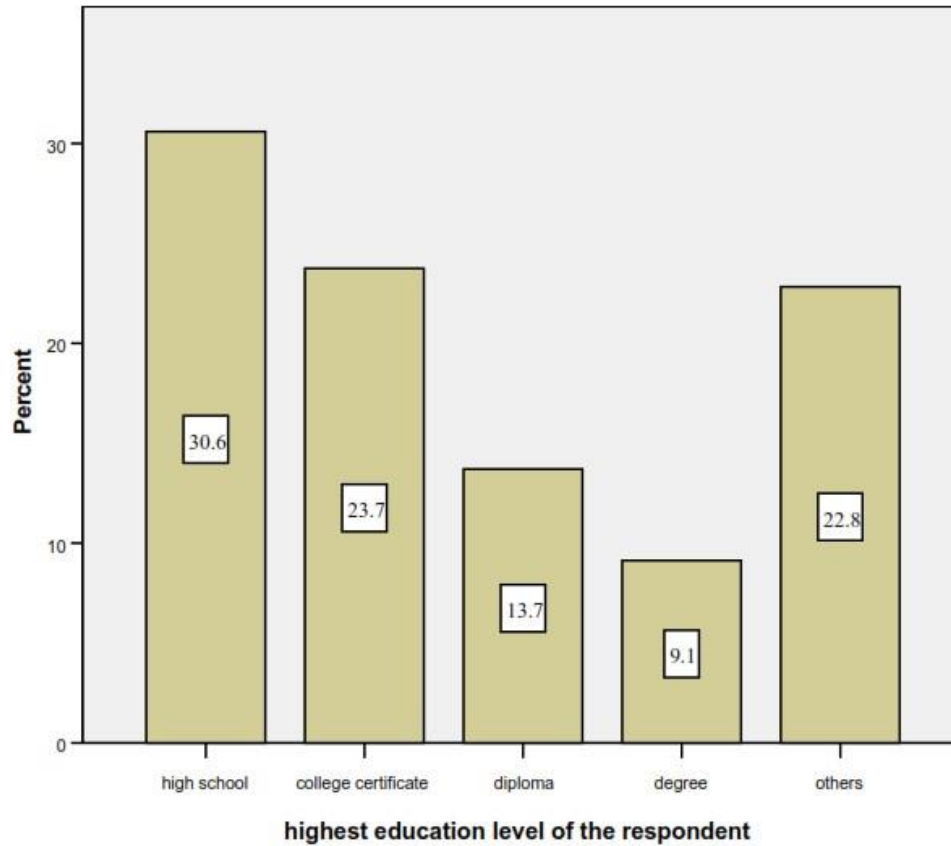


The study findings on the age of respondents presented in figure 1 above indicated that 37.9%, the higher proportion of respondents were between 40 and 59 years, whereas 28.31% (the least number of respondents) were 60 years and above of age. The remaining 33.79% of the respondents were between 20 and 39 years of age. The researcher considered the age of respondents with the aim of documenting information based on respondents' age in terms of varying years of experience and understanding about the study.

#### 4.2.3 Education levels of respondents

The researcher recorded the education levels of respondents as presented in Figure 3 below. The researcher considered the education level that was attained by the respondents in order to get information that matched with respondents' literacy levels.

**Figure 4: Showing education levels of respondents**



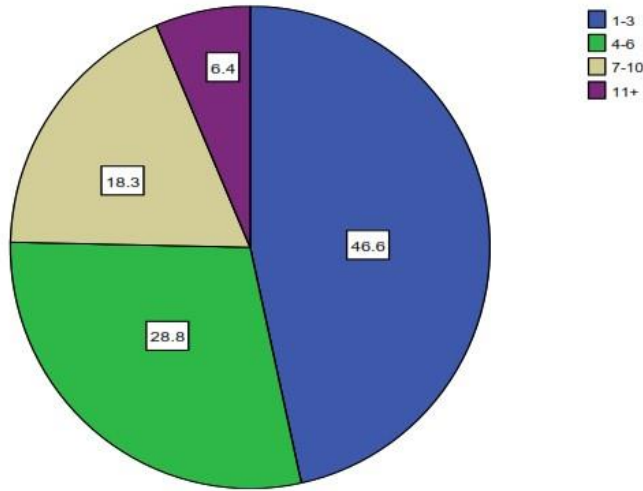
*Source: Primary data, 2024*

The study findings on the education level that was attained by the respondents presented in Figure 3 above indicated that 30.6% the largest number of respondents had high school education, whereas 9.1% (the least number of respondents) had degree level, 23.7% had college certificate, 13.7% had diploma level and respondents with 22.8% had other levels of education. The researcher considered the education levels attained by respondents in order to determine the appropriate data with regard to respondents' levels of literacy and understanding. The results imply that the respondents were able to understand the questionnaire and give valid response since they had better understand as guided by their levels of education which in this case the majority were of high school education.

#### **4.1.4 Number of years in present business**

The researcher recorded the number of years the respondents had been in their present business and the results were presented in Figure 4 below.

**Figure 5: Working experience of the respondent**



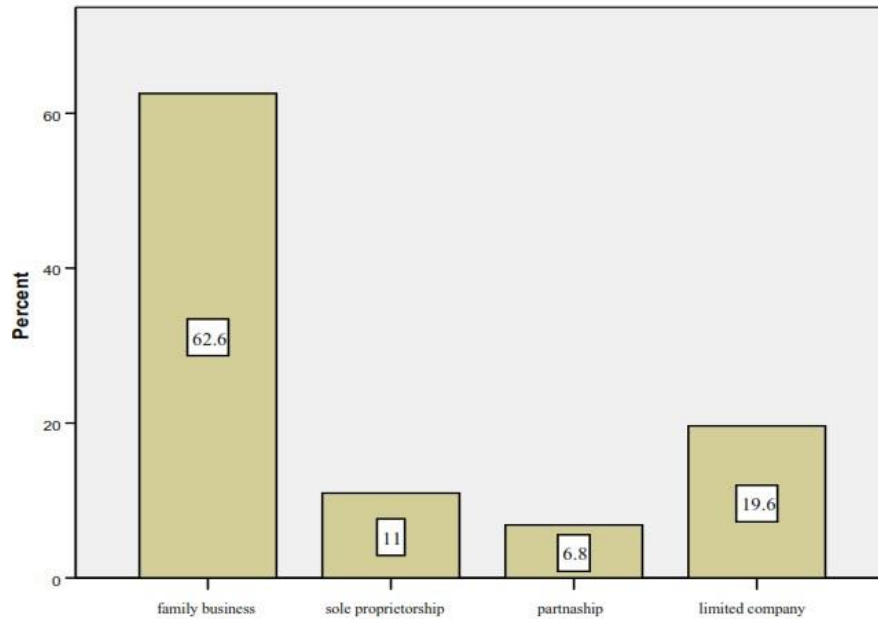
*Source: Primary data, 2024*

The study findings on the number of years by the respondents in the present business, it was revealed that most of the respondents had spent 1-3 years in the current business with 46.6% while 6.4% the lower number of respondents mentioned that they spent 11 and above, 28.8% of the respondents mentioned that they had spent 4-6 years in the current business and the remaining 18.3% of the respondents mentioned that they had spent 7-10 years in business. This implied that most of the respondents had been in the business for a considerable period of time which implies that they were in a position to give credible information relating to this study.

#### **4.1.5 Legal form of business**

The researcher recorded the legal form of business by the respondents and the results were presented in Figure 5 below.

**Figure 6: Legal form of the Business**



*Source: Primary data, 2024*

The study findings on the legal form of business by the respondents were presented in Figure 5 above where 62.6% (the higher number of respondents) mentioned that they had family businesses while 11% (the lower number of respondents) mentioned that they were sole proprietorship businesses, 6.8% of the respondents mentioned that they were partnerships and the remaining 19.6% of the respondents mentioned that they had limited companies. The researcher's aim of considering the legal form of business was to get information depending on information from different businesses to base on to make dependable conclusions and recommendations.

### **4.3 Descriptive statistics on Effect of Access to finance on financial performance of SMEs**

#### **4.3.1 Cost of credit**

This section presents data collected and analyzed on the first objective of the study which was to examine the effects of cost of credit on financial performance.

**Table 4.5 Descriptive statistics on Cost of credit**

<b>Statements</b>	<b>SA</b> <b>f (%)</b>	<b>A</b> <b>f (%)</b>	<b>NS</b> <b>f (%)</b>	<b>D</b> <b>f (%)</b>	<b>SD</b> <b>f (%)</b>	<b>M</b>	<b>SD</b>
Credit terms in financial institutions determine the loans obtained by SME owners	16 (18.6)	28 (32.9)	16 (18.8)	19 (22.4)	6 (7.1)	2.66	1.220
The rate of interest charged by financial institutions determines the accessibility of loans by SMEs	18 (21.2)	27 (31.8)	17 (20.0)	17 (20.0)	6 (7.1)	2.60	1.227
Length of SMEs survival and bank's cooperation is a key determinant of credit availability for SMEs	14 (16.5)	25 (29.4)	22 (25.9)	18 (21.2)	6 (7.1)	2.73	1.179
Inflexible and non-negotiable repayment schedules of Micro finance institutions also affect finance accessibility by SMEs	18 (21.2)	21 (24.7)	21 (24.7)	18 (21.2)	6 (7.1)	2.72	1.278
SMEs often do you borrow for their business to progress	14 (16.5)	27 (31.8)	19 (22.4)	19 (22.4)	6 (7.1)	2.72	1.191

**Source; field data (2024)**

Key: SA- strongly Agree, A- Agree, NS- Not Sure, D- Disagree, SA- Strongly Disagree, M – Mean, SD- Standard Deviation, %- Percentage, f – Frequency.

On finding out how Credit terms in financial institutions determine the loans obtained by SME owners, results in the table indicate that 16(18.8%) of the respondents strongly agreed with the statement, 28(32.9%) of the respondents agreed with the statement, 16(18.8%) were not sure about the statement, 19(22.4%) disagreed with the statement and 6(7.1%) strongly disagreed with the statement. The average mean value obtained of 2.66 signifies agreement to a large extent and the standard deviation of 1.220 indicates a wide variance in responses. This further implies that Credit terms in financial institutions determine the loans obtained by SME owners

The results in the table indicate that 18(21.2%) strongly agreed with the statement that the rate of interest charged by financial institutions determines the accessibility of loans by SMEs, 27(31.8%) agreed with the statement, 17(20.0%) were not sure about the statement, 17(20.0%), 17(20.0%) disagreed with the statement, and 6(7.1%) strongly disagreed with the statement. The

average mean value of 2.60 indicates agreement to a larger extent and the standard deviation of 1.227 indicates a wide variance among the responses. These findings were consistent with Doris (2018) who contends that there is a close relationship between access to finance and financial performance of small and medium enterprise in Soroti District.

Findings in the table above indicate that 14(16.5%) and 25(29.4%) agreed and strongly agreed with the statement 'Length of SMEs survival and bank's cooperation is a key determinant of credit availability for SMEs, 22(29.9%) of the respondents were not sure about the statement, 18(21.2%) disagreed with the statement and 6(7.1%) strongly disagreed. The average mean value of 2.73 signifies agreement to a great extent and the standard deviation of 1.229 indicates a wide variance in responses. The findings imply that Cost of credit (Not rigid) improves financial performance of SMEs in Soroti District.

From the analysis above, 18(21.2%) of the respondents strongly agreed with the statement 'Inflexible and non-negotiable repayment schedules of Micro finance institutions also affect finance accessibility by SMEs', 21(24.7%) agreed with the statement, 21(24.7%) of the respondents were not sure of the statement, 18(21.2%) disagreed with the statement and 6(7.1%) strongly disagreed with the statement. The average mean value is 2.72 which signify agreement to a wide extent and the standard deviation is 1.278 which indicates a wide variance among the responses. The findings imply that Inflexible and non-negotiable repayment schedules of Micro finance institutions also affect finance accessibility by SMEs in Soroti district.

From the analysis above, 14(16.5%) of the respondents strongly agreed with the statement 'SMEs often do you borrow for their business to progress', 27(31.8%) agreed with the statement, 19(22.4%) of the respondents were not sure of the statement, 19(22.4%) disagreed with the statement and 6(7.7%) strongly disagreed with the statement. The average mean value is 2.72 which signify agreement to a wide extent and the standard deviation is 1.191 which indicates a wide variance among the responses. The findings imply that SMEs often do borrow for their business to progress

#### **4.3.2 Collateral security**

This section presents data collected and analyzed on the Second objective of the study which was to examine the effects of collateral security on financial performance.

**Table 4.6 Descriptive statistics on collateral security**

<b>Statements</b>	<b>SA</b> <b>f (%)</b>	<b>A</b> <b>f (%)</b>	<b>NS</b> <b>f (%)</b>	<b>D</b> <b>f (%)</b>	<b>SD</b> <b>f (%)</b>	<b>M</b>	<b>SD</b>
The level of collateral by banks determines finance accessibility by SME owners	14 (16.5)	28 (32.9)	17 (20.0)	18 (21.2)	8 (9.4)	2.74	1.236
Assets are common collateral property asked for finance access	16 (18.8)	22 (25.9)	18 (21.2)	20 (23.5)	9 (10.6)	2.81	1.286
Credit history is considered for loan access by SMEs	13 (15.3)	26 (30.6)	20 (23.5)	20 (23.5)	6 (7.1)	2.76	1.182
Financial institutions provide suitable conditions for loan access	16 (18.8)	27 (31.8)	17 (20.0)	19 (22.4)	6 (7.1)	2.67	1.219
The level of collateral by banks determines finance accessibility by SME owners	15 (17.6)	29 (34.1)	17 (20.0)	17 (20.0)	7 (8.2)	2.67	1.219

**Source; field data (2023)**

Key: SA- strongly Agree, A- Agree, NS- Not Sure, D- Disagree, SA- Strongly Disagree, M – Mean, SD- Standard Deviation, %- Percentage, f – Frequency.

On finding out; The level of collateral by banks determines finance accessibility by SME owners, results in the table indicate that 14(16.5%) of the respondents strongly agreed with the statement, 28(32.9%) of the respondents agreed with the statement, 17(20.0%) were not sure about the statement, 18(21.2%) disagreed with the statement and 8(9.4%) strongly disagreed with the statement. The average mean value obtained of 2.74 signifies agreement to a large extent and the standard deviation of 1.236 indicates a wide variance in responses. This further implies that implementing Collateral security improves on the financial performance of SMEs.

From the analysis above, 16(18.8%) of the respondents strongly agreed with the statement ‘Assets are common collateral property asked for finance access’, 22(25.9%) agreed with the statement, 18(21.2%) of the respondents were not sure of the statement, 20(23.5%) disagreed with the statement and 9(10.6%) strongly disagreed with the statement. The average mean value is 2.81 which signify agreement to a wide extent and the standard deviation is 1.245 which indicates

a wide variance among the responses. The findings imply that assets are common collateral property asked for finance access.

From the analysis above, 13(16.8%) of the respondents strongly agreed with the statement 'Credit history is considered for loan access by SMEs, the finding state that 26(30.6%) agreed with the statement, 20(23.5%) of the respondents were not sure of the statement, 20(23.5%) disagreed with the statement and 6(7.1%) strongly disagreed with the statement. The average mean value is 2.76 which signify agreement to a wide extent and the standard deviation is 1.182 which indicates a wide variance among the responses. The findings imply the credit history is considered for loan access by SMEs.

On finding out Financial institutions provide suitable conditions for loan access. Results collected and analyzed reveal that 16(18.8%) of the respondents strongly agreed with the statement, 27(31.6%) agreed with the statement, 17(20.0%) of the respondents were not sure of the statement, 19(22.4%) disagreed with the statement and 6(7.1%) strongly disagreed with the statement. The average mean value is 2.67 which signify agreement to a wide extent and the standard deviation is 1.219 which indicates a wide variance among the responses. The findings imply that financial institutions provide suitable conditions for loan access.

On finding out whether the level of collateral by banks determines finance accessibility by SME owners, results collected and analyzed reveal that 15(17.6%) of the respondents strongly agreed with the statement, 29(34.1%) agreed with the statement, 17(20.0%) of the respondents were not sure of the statement, 17(20.0%) disagreed with the statement and 7(8.2%) strongly disagreed with the statement. The average mean value is 2.67 which signify agreement to a wide extent and the standard deviation is 1.219 which indicates a wide variance among the responses. The findings imply that the level of collateral by banks determines finance accessibility by SME owners.

#### **4.3.3 Accessibility of financial institutions**

This section presents data collected and analyzed on the third objective of the study which was to examine the effects of accessibility to financial institutions on financial performance.

**Table 4.7 Descriptive statistics on Accessibility of financial institutions**

<b>Statements</b>	<b>SA</b> <b>f (%)</b>	<b>A</b> <b>f (%)</b>	<b>NS</b> <b>f (%)</b>	<b>D</b> <b>f (%)</b>	<b>SD</b> <b>f (%)</b>	<b>M</b>	<b>SD</b>
There is easy access of finance from financial institutions	13 (15.3)	25 (29.4)	16 (18.8)	23 (27.1)	8 (9.4)	2.86	1.245
Finance accessibility is determined by frequency of access by SMEs	16 (15.3)	28 (32.9)	19 (22.4)	18 (21.2)	7 (8.2)	2.74	1.197
Financial institutions provide easy access to information about their financial services	16 (18.8)	22 (32.9)	18 (21.2)	21 (24.7)	8 (9.4)	2.80	1.271
Financial institutions use different channels to reach the customers	12 (14.1)	22 (25.9)	17 (20.0)	22 (25.9)	12 (14.1)	3.00	1.291

Key: SA- strongly Agree, A- Agree, NS- Not Sure, D- Disagree, SA- Strongly Disagree, M – Mean, SD- Standard Deviation, %- Percentage, f – Frequency.

On finding out whether there is easy access of finance from financial institutions, results collected and analyzed reveal that 13(15.3%) of the respondents strongly agreed with the statement, 25(29.4%) agreed with the statement, 16(18.8%) of the respondents were not sure of the statement, 23(27.1%) disagreed with the statement and 8(9.4%) strongly disagreed with the statement. The average mean value is 2.86 which signify agreement to a wide extent and the standard deviation is 1.245 which indicates a wide variance among the responses. The findings imply that there is easy access of finance from financial institutions.

From the analysis above, 16(15.3%) of the respondents strongly agreed with the statement ‘Finance accessibility is determined by frequency of access by SMEs, and the finding state that 28(33.9%) agreed with the statement, 19(22.4%) of the respondents were not sure of the statement, 18(21.2%) disagreed with the statement and 7(8.2%) strongly disagreed with the statement. The average mean value is 2.74 which signify agreement to a wide extent and the standard deviation is 1.197 which indicates a wide variance among the responses. The findings imply the finance accessibility is determined by frequency of access by SMEs in Soroti city, Eastern division.

From the analysis above, 16(18.8%) of the respondents strongly agreed with the statement “Financial institutions provide easy access to information about their financial services and the findings and results state that 22(25.9%) agreed with the statement, 18(21.2%) of the

respondents were not sure of the statement, 21(24.7%) disagreed with the statement and 8(9.4%) strongly disagreed with the statement. The average mean value is 2.80 which signify agreement to a wide extent and the standard deviation is 1.271 which indicates a wide variance among the responses. The findings imply the headteacher in these school delegates' Financial institutions provide easy access to information about their financial services.

From the analysis above, 12(23.5%) of the respondents strongly agreed with the statement "Financial institutions use different channels to reach the customers and the findings and results state that 22(25.9%) agreed with the statement, 17(20.0%) of the respondents were not sure of the statement, 22(25.9%) disagreed with the statement and 12(14.1%) strongly disagreed with the statement. The average mean value is 3.00 which signify agreement to a wide extent and the standard deviation is 1.291 which indicates a wide variance among the responses. The findings imply financial institutions use different channels to reach the customers.

#### 4.3.4 Financial performance

This section presents data collected and analyzed on financial performance of SMEs.

**Table 4.8 Descriptive statistics on Financial performance**

<b>Statements</b>	<b>SA f (%)</b>	<b>A f (%)</b>	<b>NS f (%)</b>	<b>D f (%)</b>	<b>SD f (%)</b>	<b>M</b>	<b>SD</b>
Most SMEs are profitable because of access of finance from financial institutions	20 (23.5)	29 (34.1)	16 (18.8)	13 (15.3)	7 (8.2)	2.51	1.240
Incomes of SMEs always exceed their expenses	15 (17.6)	31 (36.5)	17 (20.0)	15 (17.6)	7 (8.2)	2.62	1.205
Return on assets is above 25% in SMEs due to finance access	15 (17.6)	26 (30.6)	18 (21.2)	20 (23.5)	6 (7.1)	2.72	1.211
A favorable loan period and size are good predictors of SMEs liquidity	15 (17.6)	26 (30.6)	18 (21.2)	20 (23.5)	8 (9.4)	2.78	1.257
Finance accessibility by MFIs have had a positive effect on the sales growth	16 (18.8)	33 (38.8)	17 (20.0)	12 (14.1)	8 (9.4)	2.52	1.161

Key: SA- strongly Agree, A- Agree, NS- Not Sure, D- Disagree, SA- Strongly Disagree, M – Mean, SD- Standard Deviation, %- Percentage, f – Frequency.

Findings in the table above indicate that 20 (23.5) and 29(34.1) agreed and strongly agreed with the statement ‘Most SMEs are profitable because of access of finance from financial institutions’, 16(18.8) of the respondents were not sure about the statement, 13(15.3) disagreed with the statement and 7(8.2) strongly disagreed. The average mean value of 2.51 signifies agreement to a great extent and the standard deviation of 1.240 indicate a wide variance in responses. The findings imply Most SMEs are profitable because of access of financial performance.

From the analysis above, 15(17.6%) of the respondents strongly agreed with the statement “Incomes of SMEs always exceed their expenses and the findings and results state that 31(36.5%) agreed with the statement, 17(20.0%) of the respondents were not sure of the statement, 15(17.6%) disagreed with the statement and 7(8.2%) strongly disagreed with the statement. The average mean value is 2.62 which signify agreement to a wide extent and the standard deviation is 1.205 which indicates a wide variance among the responses. The findings imply that Incomes of SMEs always exceed their expenses in financial performance.

From the analysis above, 15(17.6) of the respondents strongly agreed with the statement “Return on assets is above 25% in SMEs due to finance access and results state that 26(30.6) agreed with the statement, 18(21.2) of the respondents were not sure of the statement, 26(30.6%) disagreed with the statement and 6(7.1) strongly disagreed with the statement. The average mean value is 2.72 which signify agreement to a wide extent and the standard deviation is 1.211 which indicates a wide variance among the responses. The findings imply that return on assets is above 25% in SMEs due to finance access.

From the analysis above, 15(17.6%) of the respondents strongly agreed with the statement “A favorable loan period and size are good predictors of SMEs liquidity and results state that 26 (30.6) agreed with the statement, 18(21.2%) of the respondents were not sure of the statement, 20(23.5%) disagreed with the statement and 8(9.4%) strongly disagreed with the statement. The average mean value is 2.78 which signify agreement to a wide extent and the standard deviation is 1.257 which indicates a wide variance among the responses. The findings imply that Teachers prepare schemes of work in time.

From the analysis above, 16(18.8) of the respondents strongly agreed with the statement “Teachers prepare schemes of work in time and results state that 33(38.8%) agreed with the statement, 17(20.0%) of the respondents were not sure of the statement, 12(14.1%) disagreed with the statement and 8(9.4%) strongly disagreed with the statement. The average mean value is

2.52 which signify agreement to a wide extent and the standard deviation is 1.161 which indicates a wide variance among the responses. The findings imply that Teachers prepare schemes of work in time.

#### 4.4 Linear Regression Statistics

##### 4.4.1 Effect of Cost of credit on Financial performance

In a bid to address the First objective, a linear regression model was run to establish the Effect of Cost of credit on Financial performance and the results were presented in tables below.

**Table 4.4.1 Linear Regression Statistics**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.920 <sup>a</sup>	.846	.845	.49390

a. Predictors: (Constant), Cost of credit

Analysis in the table above reveals a coefficient of determination, R Square = 0.846 (0.846\*100 = 84.6%) which indicates a strong positive effect of cost of credit on financial performance of SMEs. Hence the coefficient of determination (R Square) indicates good financial performance as a result of Cost of credit. In order to explain the percentage of variation in the dependent variable (Financial performance) as explained by the independent variables, the researcher established that the independent variables (Cost of credit) contributed to 84.6% of the variation in the financial performance as explained by R square of .846 which shows that the model is the good prediction. It reveals that cost of credit explains 0.846 or 84.6 percent of the financial performance while 15.4 percent is explained by other factors beyond cost of credit not covered in this study.

**Table 4.4.1.2 Linear Regression Statistics**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.130	.132		.982	.329
	Cost of credit	.930	.042	.920	22.257	.000

a. Dependent Variable: Financial performance

The significance of cost of credit had p value ( $p=0.000$ ) which is less than 0.05. The beta coefficient 0.920 is positive. Based on this finding, it can be deduced that cost of credit significantly affected financial performance. This showed that cost of credit is a good predictor of financial performance. It can further be deduced that cost of credit had positive and significant effect on financial performance of SMEs.

#### 4.4.2 Effect of collateral security on Financial performance of SMEs

In a bid to address the second objective, a linear regression model was run to establish the Effect of collateral security on financial performance and the results were presented in tables below.

**Table 4.4.2.1 Linear Regression Statistics**

<b>Model Summary</b>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.948 <sup>a</sup>	.900	.898	.39918

a. Predictors: (Constant), Collateral security

Analysis in the table above reveals a coefficient of determination, R Square = 0.900 ( $0.900 \times 100 = 90.0\%$ ) which indicates a strong positive effect of collateral security on financial performance of SMEs. Hence the coefficient of determination (R Square) indicates good financial performance as a result of collateral security. In order to explain the percentage of variation in the dependent variable (Financial performance) as explained by the independent variables, the researcher established that the independent variables (collateral security) contributed to 90.0% of the variation in the financial performance as explained by R square of .900 which shows that the model is the good prediction. It reveals that collateral security explains 0.900 or 90.0 percent of the financial performance while 10.0 percent is explained by other factors beyond collateral security not covered in this study.

**Table 4.4.1.2 Linear Regression Statistics**

<b>Coefficients<sup>a</sup></b>						
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	-.006	.108		-.051	.959
	Collateral security	.984	.035	.948	28.393	.000

a. Dependent Variable: Financial performance

The significance of collateral security had p value (p=0.000) which is less than 0.05. The beta coefficient 0.948 is positive. Based on this finding, it can be deduced collateral security significantly affected Finance performance. This showed that collateral security is a good predictor of Finance performance. It can further be deduced that collateral security had positive and significant effect on finance performance of SMEs.

#### **4.4.3 Effect of Accessibility to finance institution on Finance performance**

In a bid to address the third objective, a linear regression model was run to establish the Effect of accessibility to finance institutions on financial performance and the results were presented in tables below.

**Table 4.4.3.1 Linear Regression Statistics**

<b>Model Summary</b>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.901 <sup>a</sup>	.812	.809	.54689

a. Predictors: (Constant), Accessibility of Financial institutions

Analysis in the table above reveals a coefficient of determination, R Square = 0.812 (0.812\*100 = 81.2%) which indicates a strong positive effect of Accessibility of financial institutions on financial performance of SMEs. Hence the coefficient of determination (R Square) indicates good financial performance as a result of Accessibility to financial institutions. In order to explain the percentage of variation in the dependent variable (financial performance) as explained by the independent variables, the researcher established that the independent variables (Accessibility to financial institutions) contributed to 81.2% of the variation in the financial performance as explained by R square of .812 which shows that the model is the good prediction. It reveals that

Accessibility to financial institutions explains 0.812 or 81.2 percent of the financial performance while 18.8 percent is explained by other factors beyond Accessibility to financial institutions not covered in this study.

**Table 4.4.1.2 Linear Regression Statistics**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.132	.149		.888	.377
	Accessibility to financial institutions	.907	.046	.901	19.684	.000

a. Dependent Variable: Financial performance

The significance of Accessibility to financial institutions had p value ( $p=0.000$ ) which is less than 0.05. The beta coefficient 0.901 is positive. Based on this finding, it can be deduced that head accessibility to financial institutions significantly affected financial performance. This showed that accessibility to financial institutions significantly is a good predictor of financial performance. It can further be deduced that accessibility to financial institutions had positive and significant effect financial performance of SMEs.

#### 4.4.4 Effect of Access to finance on Financial performance in selected SMEs

The bid to determine the effect of access to finance on financial performance of selected SMEs, a multiple regression was used and all construct of Access to finance considered in this study were all regressed financial performance. The findings are presented in tables below.

**Table 4.4.1.3 Linear Regression Statistics**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.953 <sup>a</sup>	.908	.905	.38558

a. Predictors: (Constant), Cost of credit, Collateral security, Access to financial institutions

To respond to the general objective of the study, findings in the table above reveal a coefficient of determination, R Square value = 0.908( $0.908*100 = 90.8\%$ ). The study shows that Access to finance has a strong positive effect on financial performance of SMEs. In order to explain the

percentage of variation in the dependent variable (Financial performance) as explained by the independent variables, the researcher established that the independent variables (Cost of credit, Collateral security, Access to financial institutions) contributed to 90.8% of the variation in the financial performance as explained by R square of 0.908 which shows that the model is the good prediction. It reveals that Access to finance explains 0.908 or 90.8 percent of the finance performance while 9.2 percent is explained by other factors not covered in this study.

**Table 4.4.1.4. Linear Regression Statistics**

<b>Coefficients<sup>a</sup></b>					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.007	.106		-.071	.944
1 Cost of credit	.390	.134	.385	2.906	.005
Collateral security	.857	.113	.826	7.578	.000
Access to financial institutions	-.257	.138	-.255	-1.861	.066

a. Dependent Variable: Financial performance

Coefficients of regression were used in the study to determine the direction and extent of effect of independent variable on the dependent variable using  $\beta$  (Beta values).

The analysis in the table above reveals that Collateral security is the greatest contributor to financial performance with a Beta value of 0.826 at 0.000 level of significance. This implies that Collateral security has a positive and significant effect on financial performance. This therefore answers the research question which stated that *‘What is the effect of Collateral security on financial performance?’*

Analysis in the table above reveals that Cost of credit is the second contributor to financial performance with a Beta value of 0.385 at 0.005 level of significance. This means that Cost of credit is the second contributor to financial performance. The findings further reveal a positive and significant effect of Cost of credit on financial performance. This therefore this therefore

answers the research question which stated that *'What is the effect of Cost of credit on financial performance?'*

Analysis in the table above reveals that Access to financial institutions is the least contributor to financial performance with a Beta value of -0.255 at 0.066 level of significance. This implies that Access to financial institutions has a negative and insignificant effect on financial performance. This therefore answers research question which stated that *'What is the effect of Access to financial institutions on financial performance?'*

## **CHAPTER FIVE**

### **CONCLUSIONS AND RECOMMENDATIONS**

#### **5.0 Introduction**

This chapter contains conclusions and recommendations based on analysis of the results.

#### **5.1 Conclusions**

The credit history of an individual to the lender was pointer to how far one can access other banking facilities. This variable was viewed against such factors as, lending conditions, suitability of lending conditions, and collaterals, each of which had influence on access to financial services. Since most of respondents identified with assets which they hardly possessed, hence were unlikely to access finance products from these financial institutions.

Savings were therefore noted to influence access to finance products on the basis that amount of credit borrowed, prevailing interest rates, frequency of borrowing and the type of finance products commonly obtained by the clients were found to considerably influence access to financial services

As people gain knowledge when they are able to access information on issues relevant to whatever field of business enterprise, the researcher found that various finance products were on offer in the market. However, clients failed to obtain credible information on the most attractive packages in the market. In the study, it was assumed that a lot of the times, business owners wished to go for loaning facilities from financial institutions that were locally reached. In view of this, the study revealed that access to lending institutions, type of lending institutions, distribution channels and the number of lending institutions drastically influenced access to finance institutions among small and medium sized business. The study also indicated that there is significant relationship between access to finance and performance of small-scale enterprises.

#### **5.2 Recommendations**

Financial institutions should also modify their products to suit the financial requirements of small business entrepreneurs.

The entire finance sector should develop in-house training policies geared towards equipping the beneficiaries with credit management skills.

The government should strengthen fiscal policies promoting growth of small business entrepreneurs both for those nursing business ideas and those already in different engagements.

Financial institutions should avail information to people in different areas using the available local channels like radios so that people can quickly get to know about their services rendered.

Various branches of financial institutions should be opened up so that people from different corners can easily access financial services to improve on their business performance.

### **5.3 Areas of further study**

Influence of culture on accessibility to financial services among small business holders in Uganda.

Challenges of accessing business capital between small business entrepreneurs in Uganda iii.  
Effect of accessing loaning facilities on the informal credit structures of business entrepreneurs in Uganda.

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**Appendix I: Questionnaire**

**Section A: General information about respondent**

**Gender**

Male  Female

**Age of the respondent**

18-27  28-37  38-47  48-57  58+

**Level of education attained**

PLE  O-Level  A-Level   
 Diploma  Degree  Other (Specify).....

**For how long have you been in existence?**

Less than a year  1- 5 years  6-10 years  11 years

**What kind of business is the engaged in?**

Service  Trade

**Please mark the given statements according to your level of agreement. The numbers 1-5 represent levels of agreement from strongly disagree to strongly agree as detailed in Table below**

Strongly disagree	Disagree	Uncertain	Agree	Strongly agree
1	2	3	4	5

**Theme One: Cost of Credit**

SN	Statements	1	2	3	4	5
1	Credit terms in financial institutions determine the loans obtained by SME owners					
2	The rate of interest charged by financial institutions determines the accessibility of loans by SMEs					
3	Length of SMEs survival and bank’s cooperation is a key determinant of credit availability for SMEs					
4	Inflexible and non-negotiable repayment schedules of Micro finance institutions also affect finance accessibility by SMEs					
5	SMEs often do you borrow for their business to progress					

In your own opinion explain how cost of credit affect the access to financial services s by your business enterprise?

.....

**Theme Two: Collateral security**

SN	Statements	1	2	3	4	5
1	The level of collateral by banks determines finance accessibility by SME owners					
2	Assets are common collateral property asked for finance access					
3	Credit history is considered for loan access by SMEs					
4	Financial institutions provide suitable conditions for loan access					
5	The level of collateral by banks determines finance accessibility by SME owners					

In your own opinion explain how collateral affects access to financial services s from financial institutions?

.....

**Theme Three: Accessibility of financial institutions**

SN	Statements	1	2	3	4	5
1	There is easy access of finance from financial institutions					
2	Finance accessibility is determined by frequency of access by SMEs					
3	Financial institutions provide easy access to information about their financial services					
4	Financial institutions use different channels to reach the customers					

In your own opinion, explain the effect of accessibility of financial institutions on accessibility of financial services s?

.....

**Theme Three: Financial performance**

SN	Statements	1	2	3	4	5
1	Most SMEs are profitable because of access of finance from financial institutions					
2	Incomes of SMEs always exceed their expenses					
3	Return on assets is above 25% in SMEs due to finance access					
4	A favourable loan period and size are good predictors of SMEs liquidity					
5	Finance accessibility by MFIs have had a positive effect on the sales growth					

**Appendix II: Sample Size Determination Using Krejcie and Morgan Table.**

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

Note: "N" is population size and "S" is sample size.

*Source: Krejcie and Morgan, 1970.*