ACCESS TO FINANCE AND PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN UGANDA: A CASE OF SELECTED SMEs IN KABALE MUNICIPALITY

BY

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A DISSERTATION SUBMITTED TO THE DIRECTORATE OF POSTGRADUATE TRAINING IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE DEGREE AWARD OF A MASTER IN BUSINESS ADMINISTRATION OF KABALE UNIVERSITY

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DECLARATION

I, Nyiratebuka Esperance, declare that this is my original work and it has never been submitted to any Institution for any academic award.

Signature ………………………………………… Date………………………………

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APPROVAL

This dissertation titled 'Access to Finance and Performance of Small and Medium Enterprises in Uganda a case of selected SMEs in Kabale Municipality' has been conducted under our supervision and is ready for submission.

Sign………………………………………

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Date…………………………………….

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CO-SUPERVISOR

DEDICATION

This report is dedicated to my parents for their patience, contribution and support they provided to me throughout my study. I would not have made it without their endless love and support. May the Almighty Father in heaven continue to bless them abundantly!

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I wish to express my sincere gratitude to the Almighty God for hearing my prayers and giving me the courage, strength, power and ability to accomplish this work. In Jeremiah 33:3, these words of God gave me courage to surmount the ups and downs of my studies, “call to Me and I will answer you and tell you great and unsearchable things you do not know”.

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“To God be the Glory”

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LIST OF ABBREVIATIONS

BDS	Business Development Services
GDP	Gross Domestic Product
IFC	International Finance Corporation
MFIs	Microfinance Institutions
OECD	Organisation for Co-operation and Development
SIDP	Sustainable Industrial Development Policy
SMEs	Small and Medium Enterprises
USA	United States of America

ABSTRACT

The study investigated access to finance and performance of small and medium enterprises in Uganda: a case of selected SMEs in Kabale Municipality, the objectives of the study were: to find out the influence of cost of credit on access to finance and performance; collaterals security on access to finance and performance; effect of information access to finance on performance; and accessibility of financial institutions on access to finance and performance of SMEs in Kabale municipality. The study was guided by Contingency Theory. The study employed a descriptive study design and a cross-sectional was also used. The study used a respondent sample of 338 SMEs operating in Kabale Municipality. The study findings in respect of the main objectives indicated that access to finance influences performance of small and medium enterprises in Uganda. The results also indicate that interest rates affect borrowing of SMEs. The study results on how the respondents normally accessed information, the higher number of respondents stated that they accessed information from other clients while the least number of respondents stated that they accessed information from local dailies. From the study findings on financial institutions the respondents commonly accessed, the largest number of respondents revealed that the commonly accessed group savings where the least number of respondents mentioned that they accessed SACCOs. From the study findings on the distribution channels the financial institutions used to reach the customers, the highest number of respondents mentioned customer visits, while the least number of respondents mentioned staff visits. The study concluded that there is significant relationship between access to finance and performance of small-scale enterprises. The study recommended that the government should strengthen fiscal policies promoting the growth of small business entrepreneurs both for those nursing business ideas and those already in different engagements. Financial institutions should also modify their products to suit the financial requirements of small business entrepreneurs; and the entire financial sector should develop in-house training policies geared towards equipping the beneficiaries with credit management skills.

CHAPTER ONE:

INTRODUCTION

1.0 Introduction

This chapter presents the Introduction, Background of the study, Statement of the problem, Objectives of the study, Major objective, Specific objectives, 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

The issues of small scale enterprises has become an important issue that plays a significant role in economic development for furthering growth, innovation and prosperity (OECD, 2006). SMEs have a potential contribution socially and economically by contributing noticeably in job creation, revenue creation as well as a catalyst for urban and rural areas growth. Dalberg global development advisors (2011) address the issue of SMEs sector in high-income countries as the backbone of the economy. The Organization for Co- operation and Development (OECD) reports that more than 95 per cent enterprises in OECD area are SMEs and it accounts for almost 60 per cent of private sector employment and make a large contribution to innovation and support regional development and social cohesion, but it is less developed in low-income countries.

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).

Furthermore, the World Bank notes that the deficiencies encountered by the least developing economies in both the macroeconomic and microeconomic environments pose challenges. High budget deficits, unstable exchange rates, legal, regulatory and administrative environment pose major obstacles to accessing finance on SMEs performance, particularly medium and long-term finance (Word Bank, 2004).

The International Finance Corporation (2013) in G-20 global partnership for financial inclusion progress addresses that small medium enterprise will be critical for job growth, nevertheless all SMEs are not equal in job creation. Recent research expands on the key links between SMEs, jobs and SMEs access to financing and show that the SMEs finance gap remains large, particularly in emerging markets. The gap affects both formal and informal SMEs.

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.

1.1.2 Theoretical perspective

This study was guided by Contingency Theory that was proposed by Pike (1986). The theory sought to put across various business concepts and their applicability in the organizations. The Contingency Theory holds that organizations have differing structures in terms of the contextual factors like environment and technology (Henri, 2006). The theory therefore argues that effective resource allocation is obtained when there is a fit between the corporate design setting and the financial system operationalization. Therefore, the implementation of advanced investments is not a sure guarantee of better performance. The theory concentrates on three aspects of the corporation that are assumed to have an association with the operation and design of the financial system. Therefore this theory is relevant to the study because it provides a guideline on how investments should be undertaken in access to finance by the SMEs so as to ensure maximal gains.

1.1.3 Conceptual perspective

Financial constraints are higher in developing countries in general, but SMEs are particularly constrained by gaps in the financial system such as high administrative costs, high collateral requirements, lack of experience within financial intermediaries, lack of lender information and regulatory support to engage in SMEs lending and absence of well-functioning SMEs lending markets (Internatioanl 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 financial 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 financial system support is still a problem in Uganda especially in Kabale Municipality.

1.2 Statement of the problem

In Uganda, SME contribute 20% to Gross Domestic Product and provide employment to over 1.5 million people which accounts for 90% of total non-farming private sector workers (UIA, 2008). The benefits of the SMEs in Ugandan economy cannot be overemphasized. Small and medium enterprises play significant role in employment and income generation, producing import substituting products, mitigating rural-urban drift and mobilization of local resources (Ernst &Young, 2011). Profit maximization and business growth are the components of business performance which are considered the major goals of business enterprises. Profits are desirable by the business to ensure long-term survival of the business and that is why there are many business startups in Uganda. Whereas Uganda has the highest rate of business start-ups, it is also among the countries with the highest number of SMEs that perform poorly and close business before the end of the first year (Ernst &Young,

2011). Enterprise survey data shows that small firms are more likely to be negatively impacted by financial constraints than the large firms which are 150 per cent more likely to use bank finance for new investment (International Finance Corporation, 2011). Poor business performance of (SMEs) has for long remained unexplained most especially in the third-world countries, Uganda inclusive, perspective where the Small and Medium Enterprises occupy the large part of the economy and the growth of youth owned and operated small enterprises tend to perform poorly, particularly in Kabale Municipality majorly due to challenges of accessing business finance (Municipal Council Report, 2019).

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

1.3 Objectives of the study

1.3.1 General objective of the study

The general objective of the study was to investigate access to finance and performance of small and medium enterprises in Uganda, a case of selected SMEs in Kabale municipality.

1.3.2 Specific objectives

i. To find out the influence of cost of credit on access to finance and performance of SMEs in Kabale municipality;

ii. To examine the influence of collaterals security on access to finance and performance of SMEs in Kabale municipality;

iii. To assess the effect of information access to finance on performance of SMEs in Kabale municipality;

iv. To examine the influence of accessibility of financial institutions on access to finance and performance of SMEs in Kabale municipality.

1.4 Hypotheses

i. H1: There is a significant influence of cost of credit on access to finance and performance of SME'S in Kabale municipality

ii. H2: There is a significant influence of collateral security on access to finance and performance of SME'S in Kabale municipality

iii. H3: There is a significant effect of information access to finance on performance of SME'S in Kabale municipality

iv. H4: There is a significant influence of accessibility of financial institutions on access to finance and performance of SME"S in Kabale municipality

1.5 Scope of the study

1.5.1 Content scope

The study was limited to access to finance and performance of small and medium enterprises in Uganda, a case of selected SME'S in Kabale municipality specifically on the influence of collateral on access to finance and performance of selected SMEs in Kabale municipality, the influence of information access to finance on performance of selected SMEs in Kabale municipality, the influence of accessibility of financial institutions on access to finance and performance of selected SMEs in Kabale municipality and the influence of cost of credit on access to finance and performance of selected SMEs in Kabale municipality.

1.5.2 Time scope

This study took a period of five years that is 2014 to 2019 following access to finance and performance of small scale enterprises in Uganda, a case of selected SMEs in Kabale municipality.

1.5.3 Geographical scope

The study was carried out in Kabale Municipality, Ndorwa East and north east, Rubanda district in the north and north west and Ndorwa west in the south and south west.

1.6 Justification of the study

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, stand to gain from the findings of the study by being informed of the various financial mobilization strategies to adopt to obtain funds from existing financial institutions.

Besides, the entire financial sector may also acquire more insight into small business sector to formulate policies that would ensure more attractive financial services 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, was sensitized to formulate more favourable policies that would enhance vigour in engaging in sustainable economic development.

1.7 Definition of key terms

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

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

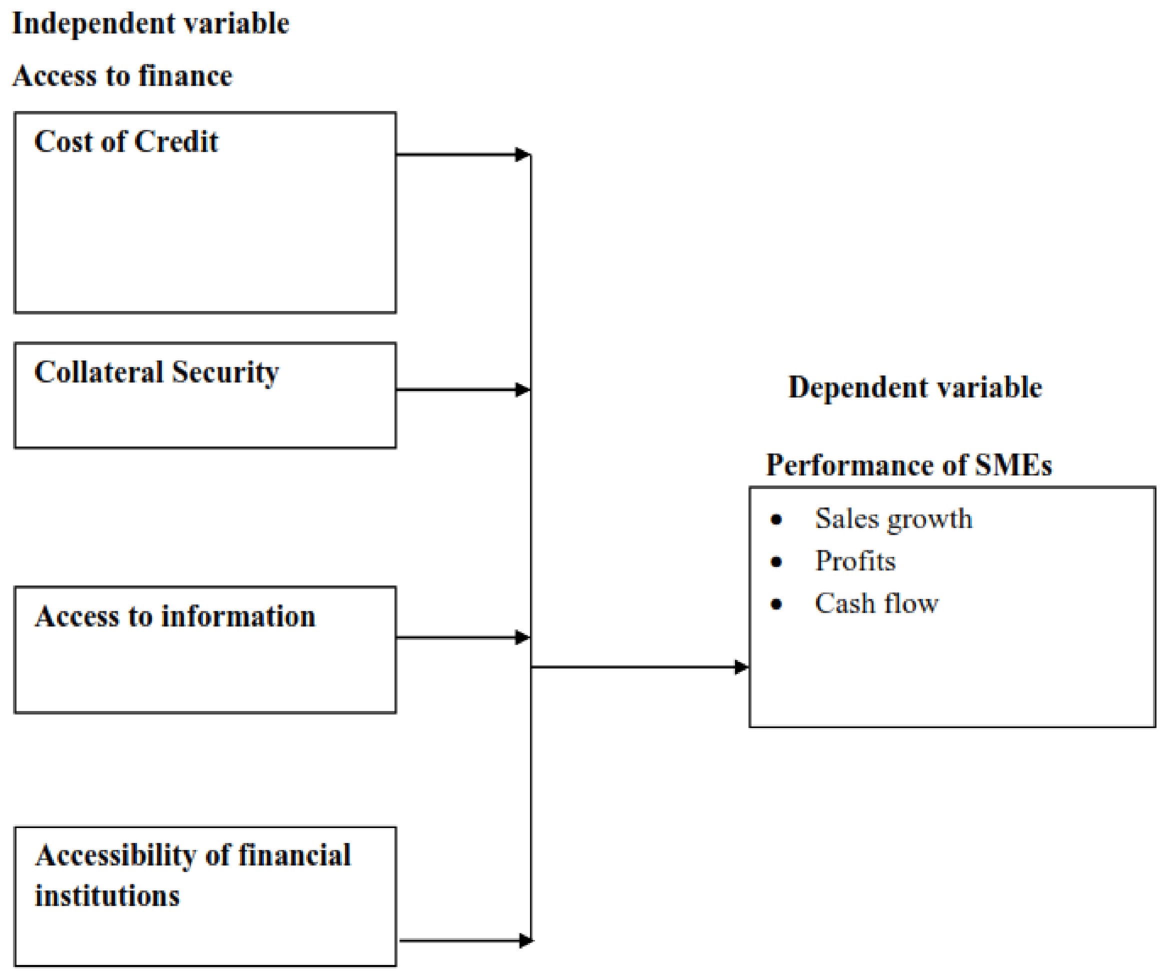
Collaterals: A pool of assets offered as security against the credit obtained from a financial institution.

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.

1.8 Conceptual framework



Source: Researcher, 2020

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 covers the review of literature related to variables under this study. It provides details relating to both theoretical underpinnings and empirical findings resulting from the previous studies carried in different industries or sectors.

2.1. Theoretical Review

2.1.1. Contingency Theory

Contingency Theory was proposed by Pike (1986). The theory seeks to put across various business concepts and their applicability in the organizations. The Contingency Theory holds that organizations have differing structures in terms of the contextual factors like environment and technology (Henri, 2006). The theory therefore argues that effective resource allocation is obtained when there is a fit between the corporate design setting and the financial system operationalization. Therefore, the implementation of advanced investments is not a sure guarantee of better performance. This is also in agreement with the researcher since effective resource allocation is obtained when there is a fit between the corporate design setting and the financial system operationalization.

The theory gives much concentration on three aspects of the corporation that are assumed to have an association with the operation and design of the financial system. This entails the following: arrangement of the investment outcomes, the capital budgeting and professional competence of the firm. Determinants such as environment and the technology employed constitute the contextual factors which explain why there is a difference in the financial practices in firms. This is attributed to the fact that the contextual factor highly determines the organizational structure (Chenhall, 2003). This is in line with the researcher also since the theory gives much concentration on three aspects of the corporation that are assumed to have an association with the operation and design of the financial system.

The theory's proposition to the study is that organizations have varying ways of accessing finances due to the differences in the contextual factors. Therefore, there is no uniformity in the financial accessibility to be employed in the firms. The way of success by SMEs of one business will not necessarily translate to the same in another business. In relation to the study, the selected SMEs in Kabale municipality have to properly analyse their contextual factors before the adoption of any way of financial accessibility. According to this theory, the accessibility of SMEs can be influenced/determined by namely, cost of credit, collaterals, information access to finance and accessibility of financial institutions are highly determined by the specific contextual factors in each SME, hence will tend to vary from one business to another. The researcher agrees with the statement that the way of success by SMEs of one business will not necessarily translate to the same in another business.

2.1.2. 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 financial 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 Kabale Municipality are highly determined by the efficiency and reliability of their financing practices and access to finances. The researcher agrees with Baxter"s views also.

2.2. Influence of cost of credit on access to finance and 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 taken into account when dealing with variables like investment, inflation and unemployment. The researcher agree 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 these 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 less 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 financial 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 Challo (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 financial 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 financial 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.

2.3. Influence of collateral security on access to finance and 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.

2.4. Effect of information access to finance on performance of SMEs

Availability of credit facilities that offer favourable lending terms to clients is subject to access to vital information regarding the same. However, it is common experience to encounter that most small and medium-sized enterprise holders in rural areas lack current information on more attractive bank products, resort to Shylocks for their credit requirements (Wall, 2012). Allone (2013) says the informal lending outfits have increased and taking advantage of insufficient knowledge small business holders possess on availability and nature of credit facilities offered to entrepreneurs by the formal lending sector. This is in line with the researcher also that it is common experience to encounter that most small and medium sized enterprise holders in rural areas lack current information on more attractive bank products, resort to Shylocks for their credit requirements.

Entrepreneurship is defined as risk-taking initiatives, creative and innovative venture in which new product and new procedures are developed in a manner that promises to approximate to the ever changing consumer needs (Onuonga, 2011). The same scholar perceives education and training as the act of instilling, inspiring, persuading, inculcating and imparting knowledge, skills and desirable attitude in learners for self-reliance. In this respect, entrepreneurial training involves equipping learners with relevant knowledge skills and desirable attitude that prepare them to be self-reliant through entrepreneurship.

Mumah (2010) views entrepreneurial training as critical to gaining more information on the existence of attractive credit facilities from commercial lending institutions that small business holders should take advantage of in order to invest in their enterprises. According to Hoffer and Jefferson (2012), the willingness to bear the perceived uncertainly associated with an entrepreneurial act is representative of a belief-desire configuration in which belief of what to do is a function of knowledge and information. The act of entrepreneurial practice is learnt by experience in a business rather than in a formal educational environment and access to crucial information on credit facilities gives an entrepreneur an opportunity to obtain the best loan package on offer by commercial lending institutions.

In the Barclays Bank Information Manual (2013), the bank does not have a limit of borrowing by its business entrepreneurs, provided they qualify for other numerous business products offered and what is often needed is information about the nature of such products. Entrepreneurship education is found to contribute significantly to risk-taking, the formation of new ventures and the propensity to be self-employed (Ogada, 2014). In addition, entrepreneurship culminates into higher income, higher assets and indirectly higher jobs satisfaction compared to other business graduates in formal employment, yet most of the time, lack of vital information on specific business credits tends to keep these ventures in their lows.

Aballa (2013) stated that rural folks venturing into the business world run into the troubles of accessing financial resources to be invested, not because the funds are unavailable, but because they just lack the ideas about the existence of these products whereby their fellows at times give them less information and the lending conditions attached. Besides, entrepreneurship information contributes to the development of small firms that employ entrepreneur graduates, as these entrepreneurs are better placed to access more information on the credit facilities on offer and the necessary lending requirements.

Entrepreneurship education also promotes technology-based firms and products (Mumah, 2010). Considering other facets of training on business development, Kasimu (2012) posits that one can perfectly link performance of workers to other performance of overall organization. He adds that the training budget is another tool that can be used to measure productivity by comparing how much has been spent to train employees with the outcome of their impact.

Morlin Gayan (2014) says a business organization needs to engage its personnel in regular training workshops and information hub for credit management to enhance their business performance. Through the learning curves, business entrepreneurs will focus on the mission of the enterprise with their sights fixed at the vision of the firm. She observed that this concept is vital in enhancing business survival, yet they remain abstract in the mind of an uneducated individual who often lacks basic resource mobilization information.

Training and education nurture entrepreneurs in their attempt to navigate their stormy and turbulent business world, engaging in critical business operations leads to production of commodities that constantly meet the changing needs of customers (Khan, 2013). He suggests that knowledge about business research is crucial for an entrepreneur and one should be in a position of conducting environmental scanning to obtain information on the strategies for growing their enterprises including knowledge on credit access.

2.5. Influence of accessibility of financial institutions on access to finance and performance of SMEs

Availability 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 was in agreement 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 lending 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 lending 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 financial 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 it 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.

2.6. 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 was a big gap to be filled by the researcher after critical review. There was a need to research in Kabale municipality so as to come up with the dependable information so that effective recommendations and conclusions could be made.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0. Introduction

This chapter covers 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 is organized into ten subsections as follows: Introduction, Research Design, Area of the Study, Study Population, Research Procedures, Sample Size, Sampling Techniques, Data Sources, Data Collection Methods and Instruments, Quality Control Methods, Data Management and Processing and Ethical Considerations.

3.2. Research Design

This study employed a descriptive study design. Creswell (2009) cites that a descriptive study provides for an in-depth analysis of a single or a few items which gives the study more information and detail about the study subjects. Thomas (2011) on the other hand observes that descriptive design is important as it provides a detailed analysis of what is happening which can provide important information for decision making.

A cross-sectional design was also 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 Kabale municipality were the focus of the study and were expected to provide a description of access to finance and performance of small scale enterprises in Uganda, a case of selected SME‟S in Kabale Municipality.

Therefore, qualitative and quantitative research methods were used to collect primary data about the problem under investigation. In addition, qualitative research method was used to complement the quantitative one.

3.3. Study Population

According to Ogula (2005), a population refers to any group of institutions, people or objects that have common characteristics and meet the criteria needed by the respondents to provide the information. The target population for this research were 2,800 respondents from the members of small and medium sized enterprises, financial officials and the customers of SMEs in the study area.

3.4. Sampling Procedures

Sampling is a procedure, process or technique of choosing a sub-group from a population to participate in the study (Ogula, 2005). According to Mugenda (1999), a sample is a smaller group or sub-group obtained from the accessible population and the sample size was determined based on a table for determining sample size as suggested by Krejcie and Morgan (1970) and use of proportional allocation of stratification which was got by getting the population size over total population times the sample size.

3.5. Sample Size

Category of respondents in Kabale municipality

Respondents	**Population**	**Sample**	**Sampling method**
Trade and other business services	1980	240	Simple random
Hotels and restaurants	300	36	Simple random
Transport	500	60	Simple random
Financial services	20	2	Purposive sampling
Total	**2,800**	**338**	

Source: Uganda Business Directory

3.6. Research procedures

The researcher requested for an introductory letter from the research coordinator of Postgraduate at Kabale University to conduct a research on Access to finance and performance of small and medium size enterprises in Uganda, a case of selected SMEs in Kabale Municipality. A copy of this letter was presented to respondents that were approached during data collection; questionnaires were distributed to the selected respondents, observation and interviews were used and kept to record events that were important in interpretation and analysis of the results.

3.7. Data Measurement

Content validity refers to a measure of a degree to which data collected using a particular instrument represent a specific domain of indicators or content a particular concept. Qualitative data measurement were done by objectivity and were time consuming, therefore data was usually collected from a smaller sample than would be the case for quantitative approaches in investigating strategy implementation in SMEs in Kabale Municipality.

3.8. Sampling Techniques

Purposive sampling techniques and simple random sampling was used.

3.8.1. 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 financial services because of working with SMEs.

3.8.2. Simple random sampling

The researcher used both qualitative and quantitative procedures; the researcher employed a simple random sampling to target the owners of SMEs and their customers in order to obtain a representative sample. Simple random sampling is a probability sampling procedure that guides a researcher to select a given sample of respondents that form a subset of a statistical population in which each member of the subset has an equal probability of being chosen (Palmer, 2011). Simple random sampling was used to select respondents from trade and other business services, hotels and restaurants and transport in order to reduce bias in sampling.

3.9. Data Source

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

3.9.1. Primary Data

Primary data is data that is collected by a researcher from first-hand sources, using methods like surveys, interviews, or experiments (Kanoga, 2016). The primary data was gathered from the respondents that were selected for the study. The researcher used questionnaires and interview guides to gather data from respondents.

3.9.2. 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 helped the researcher to have better and reliable information for the study.

3.10. Data Collection Methods and Instruments

Data collection tools are the instruments 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 helped to get data from both primary and secondary sources. Primary data was collected through the use of questionnaires and interview guide. A questionnaire is a set of systematically structured questions used by a researcher to obtain needed information from respondents (Munn & Drever, 2004). The study used questionnaires because they were easy and cheaper to administer to respondents and were moreover convenient for collecting information within a short span of time (Mugenda and Mugenda, 2003).

3.10.1. Questionnaires Technique

The researcher used standardized questionnaire that involved a set of written questions which was presented to survey population of Kabale municipality and answers were written down by the respondents. Instructions were clearly indicated to guide the respondents on how to answer the questions. This method was composed of open-ended and close-ended questions. These questions were in English so as to make concepts understood by the respondents. This method helped the researcher to get information in its depth from informants since they possess a lot of it about the study and the researcher used a questionnaire method because this tool was suitable if the population was literate, it was suitable if the population was large and time is limited and it was suitable if information needed was easily described in writing.

3.10.2. Interviews Technique

An interview is a purposeful interaction in which one person obtains information from another person or people (Enon, 2008). This technique helps in obtaining valid and reliable information from the respondents. According to Krishnaswami an Ranganatham (2005), an interview is, “a two systematic conversation between an investigator and an informant, initiated for obtaining information relevant to a specific study”.

Interviews not only cover the conversation but also involve learning from the respondent’s gestures. This technique helped in getting valid and reliable information from the respondents. This study employed structured interview guide during face-to-face interviews with the SMEs and their customers from Kabale municipality. The interview technique was used because it was quite flexible and adaptable.

3.11. Testing of Data Quality Control

3.11.1. 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. They were tested on respondents who did not participate in the study during pilot study and corrections were done as required to increase the content validity and language clarity. Content validity index was calculated and it was 0.82. Amin (2006) puts it forward that any instrument to be accepted as valid the overall average index should be 0.70 and above. Therefore, this was good enough to enable the researcher to collect valid data.

3.11.2. 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. The researcher used test retest method, in which case the same instrument(s) was administered twice to the same group of sampled subjects with a time lapse between the first test and the second test of 3 weeks (Mugenda & Mugenda 2003). This is to estimate the degree to which the same results could be obtained with a repeat measure. Scores were correlated and if a correlation coefficient of 0.856 which was greater than 0.8 was obtained, then it was considered high enough to judge the instruments as reliable for the study.

3.12. Data Management and Processing

3.12.1. Data Analysis

After collection of data from the study site, Questionnaires were sorted to establish whether they were 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 include frequency, distributions, means, correlations and regressions. This method was important in determining trends and interpreting research findings.

Qualitative data was analyzed using content analysis and narrative analysis methods. All information from ten interviewees was collected, recorded down on a piece of paper according to the stated objectives, interpretation and analysis was done using words. This means that data that was obtained was not only expressed in numerical terms and figures but description was also used.

3.13. Unit of Inquiry

This study involved respondents from Kabale Municipality Kabale District. P eople who involved in the study included Trade and other business services, Hotels and restaurants, Transport and Financial services.

3.14. Unit of analysis

Since the data collected were both qualitative and quantitative in nature data processing and analysis included computation, classification and tabulation to enable analysis. These manners reduce burliness and minimize data into manageable size to enable the reader or user of the information to understand the report easily. Quantitative data presented using descriptive statistic methods including tables, charts, and graphs and like depending on the data obtained. Qualitative techniques were used to analyze qualitative data from views by respondents. This increased the validity and reliability of information.

3.15. 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 she sought consent from the respondents of the study population by assuring them that the information that was given to her was kept confidential, not revealed to third parties and was used for academic purposes only.

3.16. Limitations to the study and how they were handled

Financial constraints especially where financial resources necessary in transport and other materials like small laptop computer for data recording were not available but the researcher improvised other means in collecting data such as writing on papers.

Time constraint; where the time given for the research was limited. However, the researcher tried to use the little time that was available so that she accomplished research in time.

There were cases of failure to get information since most of the traders were reluctant to give the information concerning their businesses. However, the researcher tried to explain to them the purpose of the study and the necessary information was given.

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, correlations and regressions.

4.1. Response rate

The responses from the interviews and questionnaires were used to analyze the data and write the report for this study.

Table 1: Response rate

Response	**Frequency**	**Percentage**
Response	219	65
None- response	119	35
Total	**338**	**100**

Out of the sample size 338 respondents, 219 filled in and returned the questionnaires and gave information in the interviews; whereas 119 respondents never gave the required information resulting to a response rate of 65% which was enough to represent the entire population. According to Mugenda and Mugenda (2003), a response rate of 50% is adequate for analysis and reporting, a rate of 60% is good and a response rate of 70% and over is excellent. This response rate therefore was satisfactory enough to make conclusions on the study.

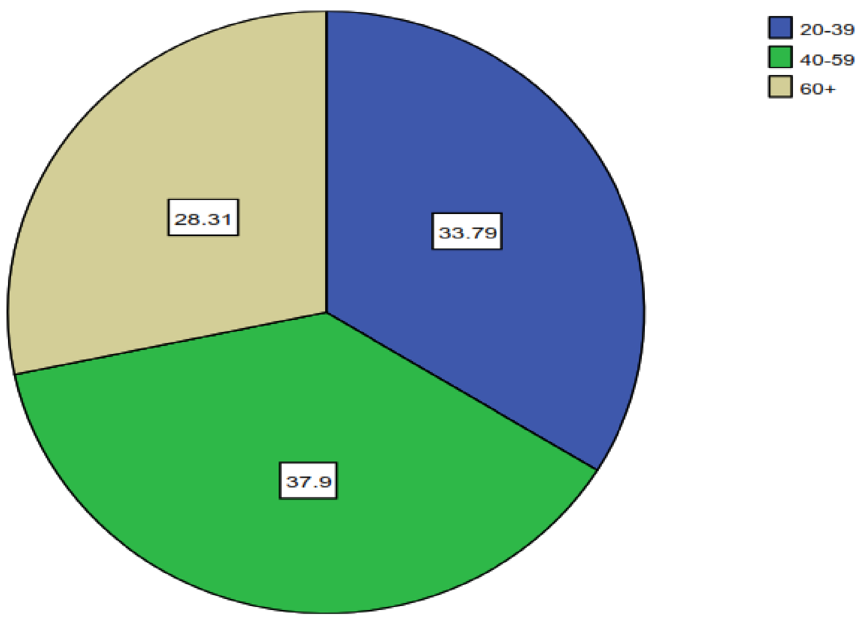
4.1.1. Demographic characteristics of respondents

A total of two hundred nineteen (219) 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. 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.

4.1.2. Age of respondents

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

Figure 1: Age of respondents



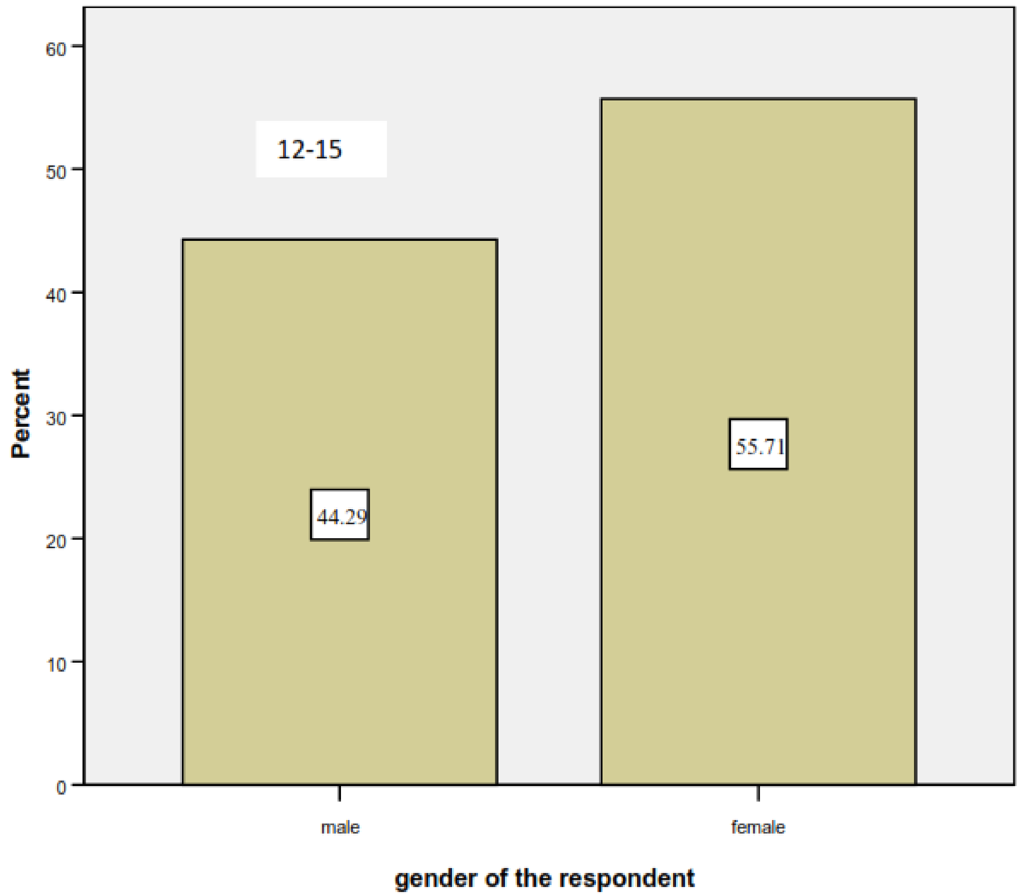
Source: Primary data, 2020

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.

4.1.3. Gender of respondents

The researcher also documented the gender of respondents and the results in Figure 2 below were recorded:

Figure 2: Showing the gender of the respondents



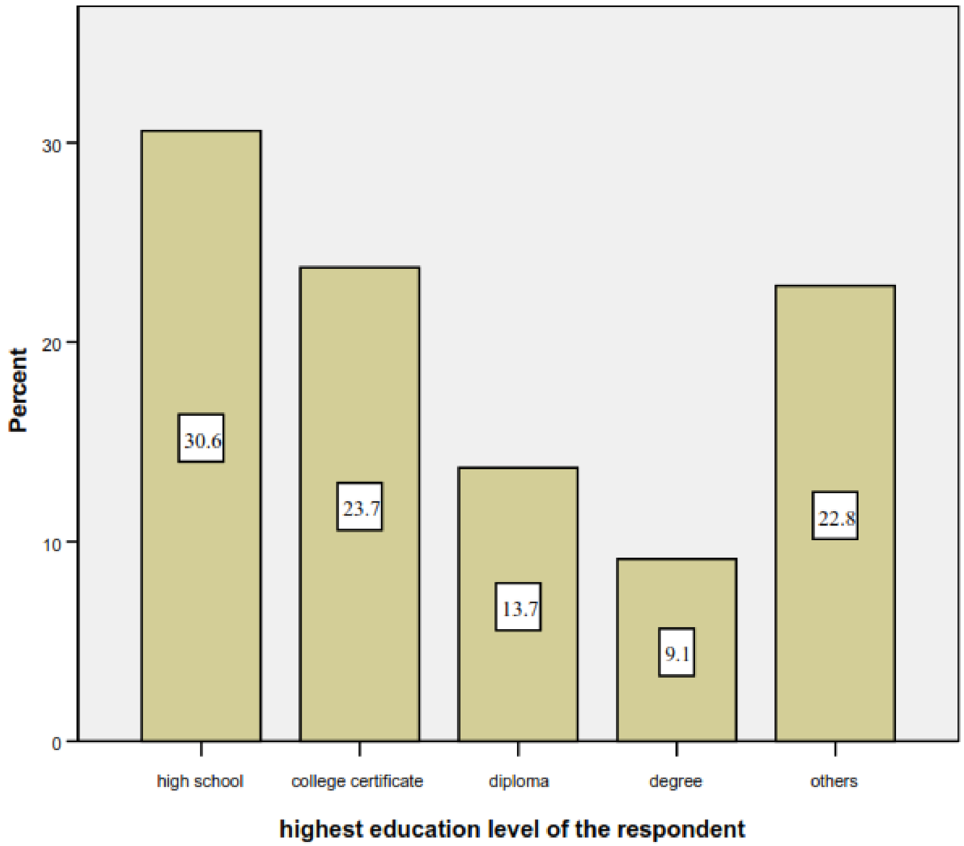
Source: Primary data, 2020

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 other things aside like cattle keeping which took much of their time. The researcher considered the gender of respondents in order to get information to base on from different respondents.

4.1.4. 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 3: Showing education levels of respondents



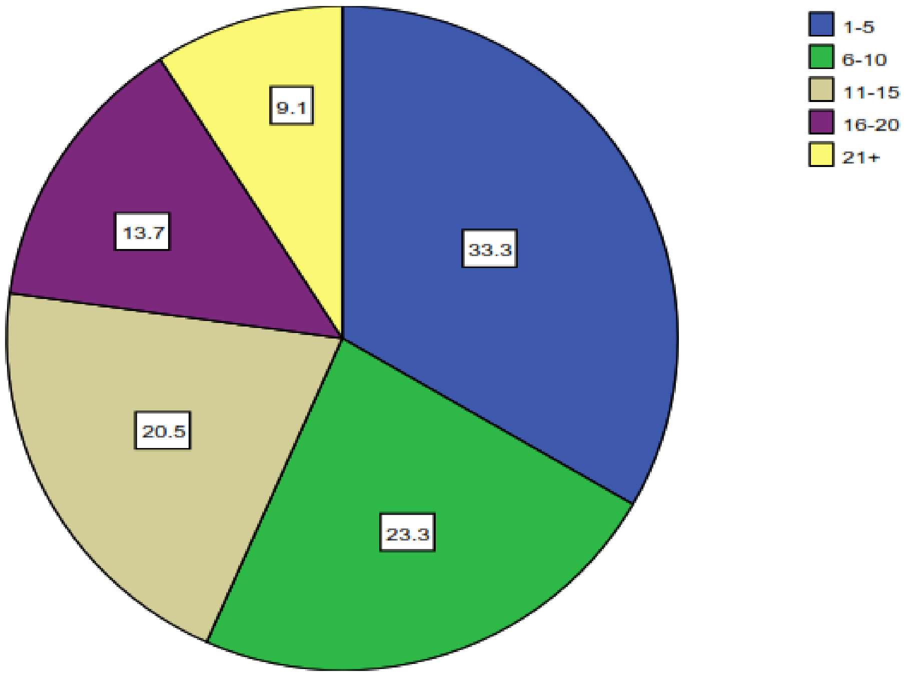
Source: Primary data, 2020

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 understanding as guided by their levels of education which in this case the majority were of high school education.

4.1.5. Number of employees in the organization

The researcher also documented from the respondents on the number of employees in the organization and the results in Figure 4 below were recorded.

Figure 4: Showing number of employees in the organization



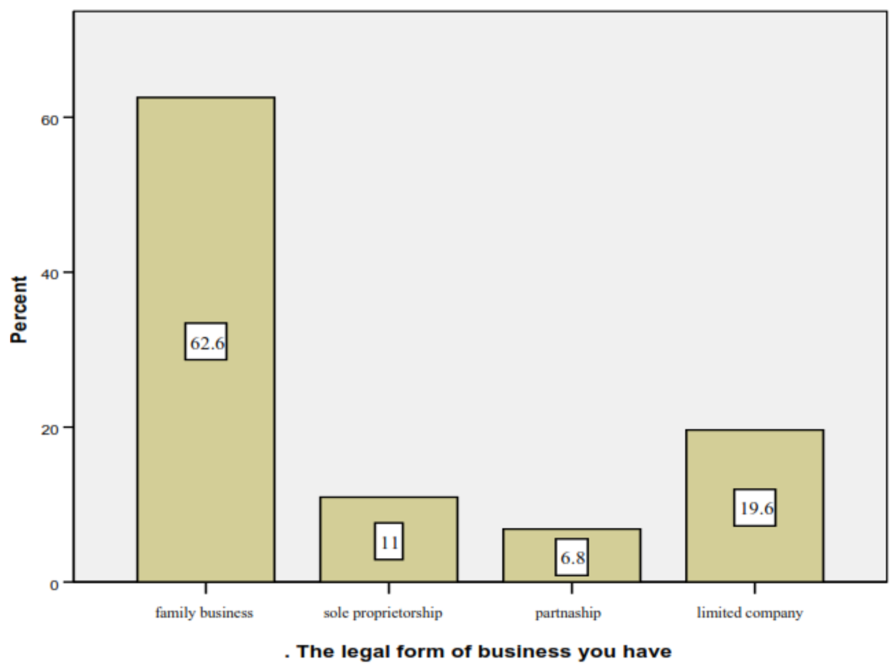
Source: Primary data, 2020

Regarding the study findings on number of employees in the organization, it was found out that 33.3% of the respondents had 1-5 employees in the business, 23.3% had 6-10 employees in the business, 20.5% had 11-15 employees in the business, 13.7% had 16-20 employees in the business and 9.1% of the respondents had 21and above employees in the business. This implied that all the businesses had a certain number of employees that were employed in their organizations depending on size of the business.

4.1.6. 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 5: Showing legal form of business



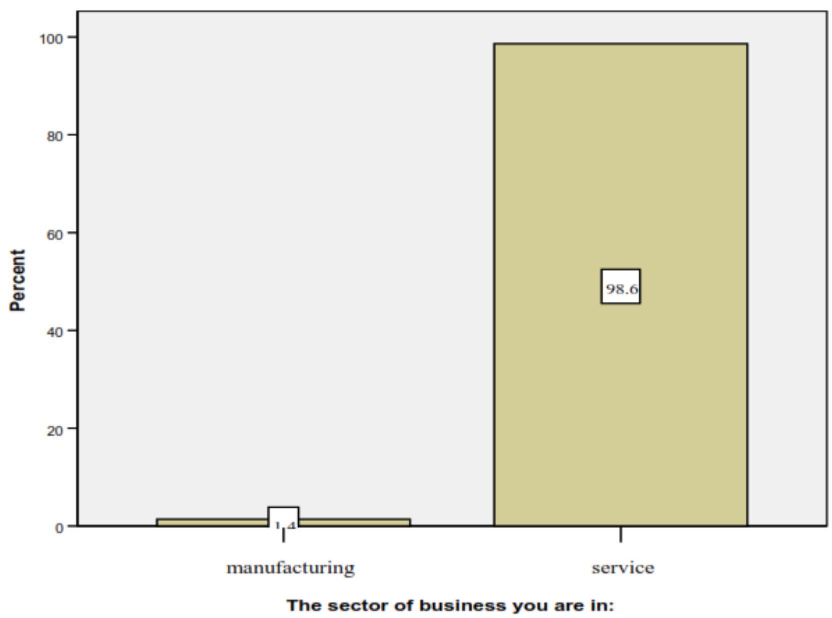
Source: Primary data, 2020

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.

4.1.7. Sector of business

The researcher recorded the sector of business by the respondents and the results were presented in Figure 6 below.

Figure 6: Showing sector of business



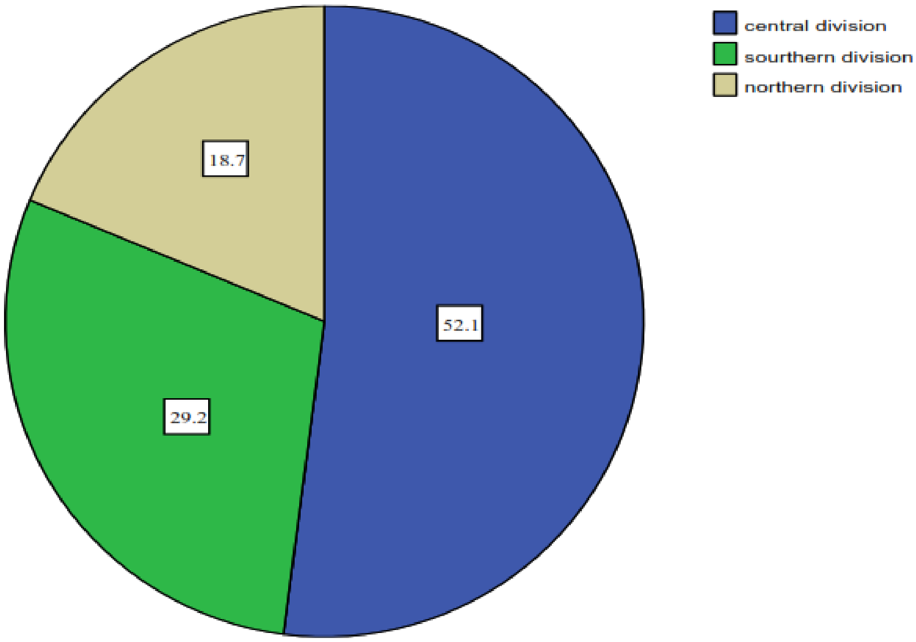
Source: Primary data, 2020

From the study findings on the sector of the business by the respondents it was presented in Figure 6 above where 98.6% (the higher number of respondents) mentioned that they were in service sector of business because these were somehow easy to start compared to the manufacturing businesses where 1.4% of the respondents were in manufacturing businesses. The researcher considered the sector of business in order to get the desired information for the study basing on all kinds of businesses.

4.1.8. Location of business

The researcher also documented from the respondents on the location their businesses and the results in Figure 7 below were recorded.

Figure 7: Showing location of business

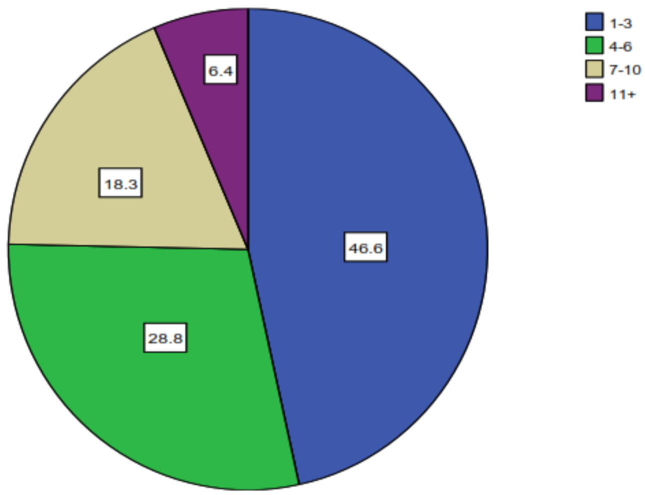


Source: Primary data, 2020

From the study findings on location of business, it was found out that most of the businesses were of central division, represented by 52.1%, followed by 29.2% of the respondents of southern division and lastly 18.7% of the respondents of northern division. This implied that most of the businesses were of central division because the area was strategically located as most of the people from different areas would meet in the central division and this enabled the businesses to grow and become many in the area.

4.1.9. 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 8 below.



Source: Primary data, 2020

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.

4.2. Access to information about the financial services

4.2.1. How respondents normally accessed information about the financial services

The researcher recorded how the respondents normally accessed information about the financial services and the results were presented in Table 2 below.

Table 2: Showing how the respondents normally accessed information

	Frequency	Percent	Valid Percent	Cumulative Percent

Valid	Local dailies	10	4.6	4.6	4.6
	Company news letters	30	13.7	13.7	18.3
	Convened meetings	60	27.4	27.4	45.7
	From other clients	119	54.3	54.3	100.0
	Total	219	100.0	100.0	

Source: Primary data, 2020

The study findings on how the respondents normally accessed information, the results for the study were presented in Table 2 above where 54.3% the higher number of respondents stated that they accessed information from other clients while 4.6% of the respondents stated that they accessed information from local dailies, 13.7% of the respondents stated that they accessed information from company newsletters and the remaining number of respondents with 27.4% of the respondents stated that they normally accessed information from convened meetings. The researcher's intention of considering how the respondents normally accessed information was to get information from respondents in relation to their understanding and the information they had on financial access.

4.2.2. Financial institutions the respondents commonly accessed

The researcher also asked the respondents on financial institutions the respondents commonly accessed in the study area in order to get their views and the results presented below in Table 3 were recorded.

Table 3: Respondents' views on financial institutions the respondents commonly accessed

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Banks	71	32.4	32.4	32.4
	SACCOS	66	30.1	30.1	62.6
	Group savings	82	37.4	37.4	100.0
	Total	219	100.0	100.0	

Source: Primary data, 2020

The study findings presented in Table 3 above revealed that 37.4% the largest number of respondents revealed that the commonly accessed financial institutions by the respondents were group savings whereas 30.1% (the least number of respondents) mentioned that they accessed SACCOs and 32.4% of the respondents revealed that they accessed banks for financial services. This implies that most of the business owners from the study area accessed financial services from different categories of financial institutions according to how they were favourable and convenient to them.

4.2.3. Highest credit amount disbursed for the business owners

The researcher further considered the respondents' opinions on highest credit amount disbursed for the business owners and the results presented in Table 4 below.

Table 4: Respondents' opinions on highest credit amount disbursed for the business owners

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	10,000-50,000	10	4.6	4.6	4.6
	50,000-90,000	12	5.5	5.5	10.0
	90,000-130,000	19	8.7	8.7	18.7
	Above130,000	178	81.3	81.3	100.0
	Total	219	100.0	100.0	

Source: Primary data, 2020

The researcher investigated the highest credit amount disbursed for the business owners, respondents with 81.3% mentioned that they were eligible to borrow above 130,000= and the least number of respondents with 4.6% mentioned that they were eligible to borrow10,000 - 50,000=, 5.5% of the respondents mentioned that they were eligible to borrow 50,000 - 90,000= and 8.7% of the respondents mentioned that they were eligible to borrow 90,000-130,000=. The researcher considered the highest credit amount disbursed for the business owners in order to understand whether the sustainability of the businesses by their owners was largely depending on the liabilities from the financial institutions.

4.2.4. Distribution channels the financial institutions used to reach the customers

The researcher also asked the respondents on distribution channels the financial institutions used to reach the customers in the study area in order to get the respondents' views and the results are presented below in Table 5 were recorded.

Table 5: Distribution channels the financial institutions used to reach the customers in the study area

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agency banking	58	26.5	26.5	26.5
	Staff visit	63	28.8	28.8	55.3
	Customer visits	98	44.7	44.7	100.0
	Total	219	100.0	100.0	

Source: Primary data, 2020

The study findings on the distribution channels the financial institutions used to reach the customers in the study area presented in Table 5 above. Respondents represented by 44.7% mentioned customer visits while 28.8% of the respondents mentioned staff visit and 26.5% of the respondents mentioned agency banking. The researcher considered the distribution channels the financial institutions used to reach the customers with the aim of getting information from respondents on how easy it was for customers to reach the financial institutions' services.

4.2.5. Extent to which the respondents agreed or disagreed that interest rates influence how much one can borrow

The researcher considered the respondents' views on the extent to which the respondents agreed or disagreed that interest rates influence how much one can borrow and the results are presented in Table 6 below.

Table 6: Respondents' opinions on extent to which the respondents agreed or disagreed that interest rates influence how much one can borrow

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	170	77.6	77.6	77.6
	Disagreed	49	22.4	22.4	100.0
	Total	219	100.0	100.0	

Source: Primary data, 2020

The researcher investigated on the extent to which the respondents agreed or disagreed that interest rates influence how much one can borrow and the results revealed that most of the respondents (77.6%) agreed that interest rates influence how much one can borrow while the least number of respondents (22.4%) disagreed with the statement that interest rates influence how much one can borrow. The researcher considered the extent to the agreement of the respondents in order to get relevant information from the respondents so as to get dependable information so that conclusions and recommendations can be made.

4.2.6. How often the respondents borrowed for their business to progress

The researcher also asked the respondents on how often the respondents borrowed for their business to progress in the study area in order to get the respondents views and the results are presented below in Table 7.

Table 7: How often the respondents borrowed for their business to progress in the study area

		Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
Valid	Below one year	89	40.6	40.6	40.6
	2-3	73	33.3	33.3	74.0
	4-5	42	19.2	19.2	93.2
	Above5	15	6.8	6.8	100.0
	Total	219	100.0	100.0	

Source: Primary data, 2020

The study findings on the how often the respondents borrowed for their business to progress in the study area presented in Table 7 above. The biggest proportion of respondents (40.6%) stated that they often borrowed below one year for their businesses to progress, 6.8% of the respondents stated that they borrowed for above five years, 19.2% of the respondents stated that they borrowed for 4-5 years, and 33.3% of the respondents stated that they borrowed for 2-3 years. This implies that the business owners often borrowed on different terms for their business progress in the study area.

From the study findings the respondents' opinions on the influence of cost of credit on the access to financial services by the business enterprises, it was revealed that the cost of credit limited how much they borrowed which affected the growth of businesses. There were little savings because much of the profits of the business was paid to the bank and it reduced the profits; however it made it difficult for businesses to prosper.

4.2.7. Conditions upon which the respondents normally obtained financial services

The researcher also asked the respondents on conditions upon which they normally obtained financial services in the study area in order to get the respondents views and the results are presented below in Table 8.

Table 8: Conditions upon which the respondents normally obtained financial services

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Savings	97	44.3	44.3	44.3
	Assets	39	17.8	17.8	62.1
	Liquidity	21	9.6	9.6	71.7
	Credit history	62	28.3	28.3	100.0
	Total	219	100.0	100.0	

Source: Primary data, 2020

The study findings on the conditions upon which the respondents normally obtained financial services in the study area are presented in Table 8 above. Over twenty-eight per cent (28.3%) of the respondents stated credit history, 9.6% mentioned liquidity,17.8% mentioned assets and 44.3% mentioned savings. The implication of these statistics is that most of respondents identified with savings which they hardly possessed, hence they were unlikely to access financial services from these financial institutions in the study area.

4.2.8. How suitable were the conditions to business financial needs

The researcher also asked the respondents on how suitable were the conditions to business financial needs in the study area in order to get the respondents views and the results are presented below in Table 9.

Table 9: How suitable were the conditions to business financial needs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Extreme suitable	38	17.4	17.4	17.4
	Suitable	42	19.2	19.2	36.5
	Neutral	48	21.9	21.9	58.4
	Less suitable	91	41.6	41.6	100.0
	Total	219	100.0	100.0	

Source: Primary data, 2020

The study findings on the how suitable were the conditions to business financial needs in the study area presented in Table 9 above. The biggest proportion of the respondents (41.6%) stated that the conditions were less suitable, 19.2% of the respondents mentioned that the conditions were suitable, 17.4% of the respondents stated that the conditions were extremely suitable and 21.9% of the respondents stated that the conditions were neutral. This implied that most business owners found that the bank lending conditions were less suitable, hence they were unlikely to access the financial products.

From the study findings on how collateral influences access to finance services from financial institutions of Kabale Municipality, it was revealed that business owners with collateral securities got more services compared to those without collateral securities.

The study findings on how accessibility to information influenced access to financial services, it was revealed that access to financial services helped the business owners to get aware of the existing financial services that were available to help them get loans and other trainings through workshops to improve on their business performance.

4.2.9. Extent the respondents agreed or disagreed that they easily accessed financial services from financial institutions

The researcher considered the respondents' views on the extent the respondents agreed or disagreed that they easily accessed financial services from financial institutions as seen in Table 10.

Table 10: Respondents' opinions on extent the respondents agreed or disagreed that they easily accessed financial services from financial institutions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	34	15.5	15.5	15.5
	Agree	41	18.7	18.7	34.2
	Neutral	34	15.5	15.5	49.8
	Disagree	85	38.8	38.8	88.6
	Strong disagree	25	11.4	11.4	100.0
	Total	219	100.0	100.0	

Source: Primary data, 2020

The researcher investigated on the extent to which the respondents agreed or disagreed that they easily accessed financial services from financial institutions. The biggest proportion of respondents (38.8%) mentioned that they disagreed with the statement, 11.4% of the respondents mentioned that they strongly disagreed,15.5% of the respondents mentioned that they were neutral to the statement, 18.7% of the respondents stated that they agreed and 15.5% of the respondents stated that they strongly agreed that they easily accessed financial services from financial institutions. This implied that due to the fact that most of the business owners did not possess substantial property in the form of collateral and they were unable to access financial products from the lending institutions.

The study findings from the respondents on the influence of accessibility of financial institutions on accessibility of financial services, it was revealed that some of the business owners who had collateral securities, savings and good credit history were able to grow their businesses since the financial services were available to them. However, it was stated that the business owners who had no collateral securities, savings and poor credit history still did not benefit from the financial institutions' services.

4.3. Determine the level of business performance

The researcher considered the respondents' views to determine the level of business performance and the results were presented in Table 11 below.

Table 11: Showing the level of business performance

Statements	N	Minimum	Maximum	Mean	Std. Deviation
The business is profitable	219	3	4	3.42	.495
The business objective is sales maximization	219	3	4	3.40	.490
Other objective is cost minimization	219	2	4	3.09	.727
Current selling price is greater than cost price	219	2	4	3.13	.714
Income from sales always exceeds the expenses	219	3	4	3.31	.462
Rent costs are always lower as compared to sales	219	3	4	3.22	.415

Utility bills, salaries, wages and finance costs are lower	219	2	4	3.19	.668
Pays tax on profits	219	3	4	3.43	.496
Return on sales is always above 25%	219	2	4	2.65	.783
Return on assets is above 25%	219	2	4	2.71	.799
Return on equity is above 25%	219	2	4	2.20	.512
Has more than 25% of the market share	219	2	4	2.55	.761
Expects profits to increase by more than 40% this year	219	2	4	2.24	.517
Anticipates to have a sales increase by more than 40% this year	219	2	4	2.35	.619
Has clear key performance indicators	219	2	4	3.08	.696
Key performance indicators are reviewed regularly	219	2	4	2.74	.704
Has a sales team in place	219	2	4	2.63	.782
Has a mission statement	219	1	4	2.73	.770
Has opened up new sales outlets	219	1	4	1.93	.757
Has motivated staff	219	2	4	2.96	.641
Has full market information	219	2	4	2.02	.655
Has exports products to neighboring countries	219	2	4	2.05	.291
Prepares a business plan	219	2	4	2.82	.510
Carries out marketing research	219	2	4	2.63	.695
Prepares forecast statements	219	2	4	2.77	.744
Assets have grown by more than 30% this year	219	2	4	2.63	.721
The number of employees have grown this year	219	1	4	2.06	.032
The customers are satisfied with our services/products	219	3	4	3.33	.472

The customers are retained	219	2	4	2.96	.712
The Customers prefer your products to those of competitors	219	2	4	3.05	.630
Valid N (listwise)	219				

Source: Primary data, 2020

The study findings on determining the level of business performance, the responses agreed that the business is profitable (mean=3.42 and Std=0.495), the business objective is sales maximization (mean=3.40 and Std=0.490), other objective is cost minimization (mean=3.09 and Std=0.727), current selling price is greater than cost price (mean=3.13 and Std=0.714), income from sales always exceeds the expenses (mean=3.31 and Std=0.462), rent costs are always lower as compared to sales (mean=3.22 and Std=0.415), utility bills, salaries, wages and finance costs are lower (mean=3.19 and Std=0.668), pays tax on profits (mean=3.43 and Std=0.496), return on sales is always above 25% (mean=2.65 and Std=0.783).

The respondents agreed that return on assets is above 25% (mean=2.71 and Std=0.799), return on equity is above 25% (mean=2.20 and Std=0.512), has more than 25% of the market share (mean=2.55 and Std=0.761), expects profits to increase by more than 40% this year (mean=2.24 and Std=0.517), anticipates to have a sales increase by more than 40% this year (mean=2.35 and Std=0.619), has clear key performance indicators (mean=3.08 and Std=0.696), key performance indicators are reviewed regularly (mean=2.74 and Std=0.704), has a sales team in place (mean=2.63 and Std=0.782), has a mission statement (mean=2.73 and Std=0.770), has opened up new sales outlets (mean=1.93 and Std=0.757), has motivated staff (mean=2.96 and Std=0.641).

The respondents agreed with has full market information (mean=2.68 and Std=0.655), has exports products to neighboring countries (mean=2.05 and Std=0.291), prepares a business plan (mean=2.82 and Std=0.510), carries out marketing research (mean=2.63 and Std=0.695), prepares forecast statements (mean=2.77 and Std=0.744), assets have grown by more than 30% this year (mean=2.63 and Std=0.721).

The respondents agreed that the number of employees have grown this year (mean=2.06 and Std=0.032), the customers are satisfied with our services/products (mean=3.33 and Std=0.472), the customers are retained (mean=2.96 and Std=0.712), the customers prefer your products to those of competitors (mean=3.05 and Std=0.630).

The standard deviation represented the variation of responses from the mean with the highest variation being 0.799, an indication that the variations in responses were acceptable since the standard deviations were less than 1.

4.4. Zero order correlation between access to finance and performance of SMEs in Kabale municipality

Table 12: Zero order correlation between access to finance and performance of SME'S in Kabale municipality

		Mean	Std. Dev	Access	Cost of credit	Collateral security	Information access	Accessibility of financial institutions	Performance
Access	Pearson Correlation	23.5753	2.91273	1					
	Sig. (2-tailed)								
	N			219					
Cost of credit	Pearson Correlation	7.8128	1.26948	.400(**)	1				
	Sig. (2-tailed)			.000					
	N			219	219				
Collateral security	Pearson Correlation	5.0959	1.63531	.636(**)	.121	1			
	Sig. (2-tailed)			.000	.073				
	N			219	219	219			
Informati	Pearson	7.5479	1.6314	.551(*	-	.099	1		

on access	Correlation		7	*)	.134(*)				
	Sig. (2-tailed)			.000	.048	.145			
	N			219	219	219	219		
Accessibility of financial institutions	Pearson Correlation	12.4475	2.33457	.860(**)	-.021	.686(**)	.516(**)	1	
	Sig. (2-tailed)			.000	.756	.000	.000		
	N			219	219	219	219	219	
Performance	Pearson Correlation	83.9174	3.81394	-.051	.099	-.084	-.078	-.144(*)	1
	Sig. (2-tailed)			.456	.144	.215	.249	.033	
	N			219	219	219	219	219	219

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

4.4.1. Cost of credit and performance are positively relatedin SMEs (H1)

It is evident from Table 12 that there is a positive significant correlation between cost of credit and performance ($r=0.40, p<0.01$). This finding means that a favourable cost of credit is associated with greater chances of access to finance. This interdependence of access and cost was earlier confirmed by the work of Doni (2012). It was observed that 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. In effect, this finding supports hypothesis (H1).

4.4.2. Collateral security and performance are positively related in SMEs (H2)

From correlation matrix in Table 12, the results indicate that the relationship between collateral security and performance is significant ($r=.636$, $p<0.01$). This finding is in line with Charitonenko and Rahman (2002) who 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 these influence how much one can borrow. This finding supports hypothesis (H2).

4.4.3. Information access and performance are positively related in SMEs (H3)

It is evident from Table 12 that a positive and significant relationship between information access and performance exists ($r= .551$, $p< 0.01$). This implies that the higher the accessibility of information, the stronger the accessibility of finance which leads to performance. This is true because availability of credit facilities that offer favourable lending terms to clients is subject to access to vital information regarding the lending to financial institutions. The hypothesis (H3) which establishes the relationship between information access and performance is thus supported.

4.4.4. Accessibility of financial institutions and performance are positively related in SMEs (H4)

From correlation matrix in Table 12, the results indicate that the relationship between accessibility of financial institutions and performance is significant ($r=.860$, $p<0.05$). This finding is in agreement with Mann (2012) who stated that availability of lending institutions within the reach of ordinary business entrepreneurs has a great influence on SME's 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. This finding supports hypothesis (H4).

4.5. Regression analysis

Testing predictive power of study variables

One of the objectives of this study was to find out the influence of cost of credit on access to finance and performance of SMEs in Kabale municipality. Specifically, the tested hypotheses were:

Table 13: Testing predictive power of study variables

H1: **H2**:	Cost of credit on access to finance positively influences performance of SMEs Collateral security on access to finance and performance of SMEs
H3: **H4**:	Information access to finance negatively influences performance of SMEs Accessibility of financial institutions on access to finance positively influences performance of SMEs.

The researcher deemed it fit to test these hypotheses by carrying out multiple regression analysis, with the aim to establish the predictive power of each variable. Though there are many methods of regression, including enter method, step-wise method, the researcher preferred the hierarchical regression method because of its clarity in pointing out the contribution of each predictor at different stages in the regression model (Field, 2006). Petrocelli (2003) further supports the hierarchical regression method, and observed that the method helps in testing the theoretical assumptions, and in examining the influence of several predictor variables in a sequential way. By doing so, the relative importance of a predictor is judged on the basis of how much it adds to the prediction of a criterion variable. The regression results are provided in Table 14 below:

Table 14a, b and c: Showing hierarchical regression with access to finance and performance of SMEs

Model		Sum of Squares	Df		Mean Square	F	Sig.
1	Regression	62.082		2	31.041	2.157	.118(a)
	Residual	3094.432		215	14.393		
	Total	3156.514		217			
2	Regression	68.053		3	22.684	1.572	.197(b)
	Residual	3088.461		214	14.432		
	Total	3156.514		217			
3	Regression	70.582		4	17.646	1.218	.304(c)
	Residual	3085.932		213	14.488		
	Total	3156.514		217			
4	Regression	159.316		5	31.863	2.254	.050(d)

	Residual	2997.198		212	14.138		
	Total	3156.514		217			

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**	**Change Statistics**				
					R Square Change	**F Change**	**df1**	**df2**	**Sig. F Change**
1	.140(a)	.020	.011	3.79377	.020	2.157	2	215	.118
2	.147(b)	.022	.008	3.79896	.002	.414	1	214	.521
3	.150(c)	.022	.004	3.80630	.001	.175	1	213	.677
4	.225(d)	.050	.028	3.76002	.028	6.276	1	212	.013

14b

a Predictors: (Constant), cost, Access

b Predictors: (Constant), cost, Access, collateral

c Predictors: (Constant), cost, Access, collateral, information

d Predictors: (Constant), cost, Access, collateral, information, accessibility

14c

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**T**	**Sig.**
		B	**Std. Error**	**Beta**		

1	(Constant)	83.911	2.252		37.261	.000
	Access	-.141	.096	-.108	-1.466	.144
	Cost	.428	.221	.143	1.936	.054
2	(Constant)	83.568	2.317		36.060	.000
	Access	-.089	.126	-.068	-.703	.483
	Cost	.401	.225	.134	1.778	.077
	Collateral	-.134	.208	-.057	-.643	.521
3	(Constant)	83.662	2.333		35.862	.000
	Access	-.023	.202	-.018	-.114	.909
	Cost	.331	.281	.110	1.176	.241
	Collateral	-.191	.249	-.082	-.766	.445
	Information	-.107	.256	-.046	-.418	.677
4	(Constant)	83.598	2.305		36.273	.000
	Access	.868	.408	.663	2.128	.035
	Cost	-.579	.457	-.193	-1.266	.207
	Collateral	-.130	.248	-.056	-.525	.600
	Information	-.360	.273	-.154	-1.321	.188
	accessibility	-.984	.393	-.600	-2.505	.013

a Dependent Variable: Performance

These models in table 14a and b above are defined by the following regression equations:

Model 1: $P = a + b_1A_1 + c$

Model 2: $P = a + b_1A_1 + b_2C_1 + {}_{C2}$

Model3:	$P = a + b_1A_1 + b_2C_1 + b_3C_2 + b_4 + i$
Model4: $P = a + b_1A + b_2C_1 + b_3C_2 + b_4I + a$	
Model5:Where:	$P = a + b_1A_1 + b_2C_1 + b_3C_2 + b_4I + a_2$ P – Performance a - is a constant

b_1, b_2, b_3, b_4 & b_5 are coefficient values
A_1, C_1 & C_2, I & A_2 represent A_1, Access, C_1, Cost, C_2 Collateral, I, information and A_1 accessibility

In Mode 1, it is evidenced that the sample characteristics (access and cost) did not significantly affect performance SMEs, and none of the variables was statistically significant (beta coefficients; -.108 and.143) and Exchange of 0.042. The combine control variables in Model 1, explain up to 42% of the variance in the SMEs" performance.

In Model 2, cost accounted for 20% of variance in performance (F-Change = 2.157, P < .01) and caused a statistically-significant standardized coefficient (B =.401, P <0.01); this finding supports hypothesis (H1).

In Model 3, the introduction of collateral security in equation yielded 0.22 to the explanatory power of the model. This implies that information accounted for 22% of the variance in performance (Fchange= .175, p< .01), and caused a statistically-significant coefficient (B =-.191, p<0.01); this finding supports hypothesis (H2).

In Model 4, the introduction of information in the equation yielded 0.050 to the explanatory power of the model. This means that information explained 5% of the variance in performance of SMEs (Fchange = 6.276, P < .01), and caused a statistically-significant coefficient (B =-.360, p<0.01); this finding supports hypothesis (H3).

From the interviews the researcher held with the respondents on the influence of cost of credit on access to finance and performance of selected SMEs in Kabale municipality, it was revealed that the cost of credit determined how one could mind to ensure that he/she accessed the financial institution for financial services so that their businesses could be boosted and perform well. However, one of the respondents stated that, "when the cost of credit is high, it discourages one to borrow as compared to when the cost of credit low which encouraged some of the business owners to borrow and invest in their businesses for better performance".

The study findings from the interviews the researcher held with the respondents on the influence of collateral on access to finance and performance of selected SMEsS in Kabale municipality revealed that most of the business owners who had enough collateral securities were able to access financial services and get high loans which enabled them to boost their businesses. However, one of the respondents stated that "the business owners who had less collateral securities even though they accessed financial services, but they were limited to certain amounts of loans that did not allowed their businesses to progress well and this hindered their business performance".

From the study findings on the influence of information access to finance on performance of selected SMEs in Kabale municipality, most of the respondents mentioned that "many of the business owners from the study area had information on how they would get financial services due to the fact that the financial institutions were many in the area and were available to provide and give the services to their clients which the business owners were among".

The study findings from the interviews the researcher held with the respondents on influence of accessibility of financial institutions on access to finance and performance of selected SMEs in Kabale municipality, it was stated by most of the respondents that "business owners had accessibility to the banking institutions which facilitated them with loans that enabled them to boost their businesses hence performance".

4.6. Discussion of findings

The study findings on how the respondents normally accessed information, the results for the study were presented in table 2 above where 54.3% (the higher number of respondents) stated that they accessed information from other clients as Aballa (2013) stated that rural folks venturing into the business world run into the trouble of accessing financial resources to be invested, not because the funds are unavailable, but because they just lack the ideas about the existence of these products whereby their fellows at times give them less information and the lending conditions attached, while 4.6% of the respondents stated that they accessed information from local dailies,13.7% of the respondents stated that they accessed information from company newsletters, and the remaining number of respondents (27.4%) of the respondents stated that they normally accessed information from convened meetings.

The researcher investigated on the extent to which the respondents agreed or disagreed that interest rates influence how much one can borrow and the results revealed that most of the respondents (77.6%) agreed that interest rates influence how much one can borrow as agreed by Charitonenko and Rahman (2002) who 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 these influence how much one can borrow while the least number of respondents (22.4%) disagreed with the statement that interest rates influence how much one can borrow.

The study findings on the conditions upon which the respondents normally obtained financial services in the study area presented in Table 8 above, respondents (28.3%) stated credit history, 9.6% of the respondents mentioned liquidity, 17.8% of the respondents mentioned assets as in line with Adonita (2014) who stated that most banks accept only unmovable properties like land and building 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 and 44.3% of the respondents mentioned savings.

The study findings on how suitable were the conditions to business financial needs in the study area presented in Table 9 above, respondents (41.6%) stated that the conditions were less suitable as in line with Tore (2013) who stated that 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 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, 19.2% of the respondents mentioned that the conditions were suitable, 17.4% of the respondents stated that the conditions were extremely suitable and 21.9% of the respondents stated that the conditions were neutral.

The researcher investigated on the extent to which the respondents agreed or disagreed that they easily accessed financial services from financial institutions, respondents (38.8%) mentioned that they disagreed with the statement as Oeno (2012) stated that there are various other financial challenges that face small enterprises. They include the high cost of credit, high bank charges and fees as the scenario witnessed in Kenya particularly during the climax of the year 2008 testifies the need for credit among the common and low earning entrepreneurs, 11.4% of the respondents mentioned that they strongly disagreed, 15.5% of the respondents mentioned that they were neutral regarding the statement, 18.7% of the respondents stated that they agreed and 15.5% of the respondents stated that they strongly agreed that they easily accessed financial services from financial institutions.

The study findings on determining the level of business performance, the respondents agreed that the business is profitable (mean=3.42 and Std=0.495) as in line with Doni (2012) who stated that 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, the business objective is sales maximization (mean=3.40 and Std=0.490). The other objective is cost minimization (mean=3.09 and Std=0.727) as Jamal (2013) stated, 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, current selling price is greater than cost price (mean=3.13 and Std=0.714). Income from sales always exceeds the expenses (mean=3.31 and Std=0.462) as in line with Challo (2012) who stated that although more businesses have become the customers of banks, the overall volume of credit has not necessarily increased.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0. Introduction

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

5.1. Summary of findings

The study results on how the respondents normally accessed information 54.3% (the higher number of respondents) stated that they accessed information from other clients while 4.6% of the respondents stated that they accessed information from local dailies, 13.7% of the respondents stated that they accessed information from company newsletters and the remaining number of respondents (27.4%) of the respondents stated that they normally accessed information from convened meetings.

From the study findings on financial institutions the respondents commonly accessed, 37.4% (the largest number of respondents) revealed that the commonly accessed financial institutions by the respondents were group savings, whereas 30.1% (the least number of respondents) mentioned that they accessed SACCOs and 32.4% of the respondents revealed that they accessed banks for financial services.

The study findings on the highest credit amount disbursed for the business owners, 81.3% mentioned that they were eligible to borrow above 130,000= and the least number of respondents (4.6%) mentioned that they were eligible to borrow 10,000-50,000=, 5.5% of the respondents mentioned that they were eligible to borrow 50,000-90,000= and 8.7% of the respondents mentioned that they were eligible to borrow 90,000-130,000=.

From the study findings on the distribution channels the financial institutions used to reach the customers, respondents (44.7%) mentioned customer visits while 28.8% of the respondents mentioned staff visit and 26.5% of the respondents mentioned agency banking.

The study findings on the extent to which the respondents agreed or disagreed that interest rates influence how much one can borrow, most of the respondents (77.6%) agreed that interest rates influence how much one can borrow while the least number of respondents (22.4%) disagreed with the statement that interest rates influence how much one can borrow.

From the study findings on how often the respondents borrowed for their business to progress, respondents (40.6%) stated that they often borrowed below one year for their businesses to progress, 6.8% of the respondents stated that they borrowed for above five years, 19.2% of the respondents stated that they borrowed for 4-5 years and 33.3% of the respondents stated that they borrowed for 2-3 years.

The study findings on conditions upon which the respondents normally obtained financial services, respondents with 28.3% stated credit history, 9.6% of the respondents mentioned liquidity, 17.8% of the respondents mentioned assets and 44.3% of the respondents mentioned savings.

From the field on how suitable were the conditions to business financial needs, respondents (41.6%) stated that the conditions were less suitable, 19.2% of the respondents mentioned that the conditions were suitable, 17.4% of the respondents stated that the conditions were extremely suitable and 21.9% of the respondents stated that the conditions were neutral.

The field results on the extent the respondents agreed or disagreed that they easily accessed financial services from financial institutions, respondents (38.8%) mentioned that they disagreed with the statement, 11.4% of the respondents mentioned that they strongly disagreed, 15.5% of the respondents mentioned that they were neutral regarding the statement, 18.7% of the respondents stated that they agreed and 15.5% of the respondents stated that they strongly agreed that they easily accessed financial services from financial institutions.

The study findings on determining the level of business performance, the standard deviation represented the variation of responses from the mean with the highest variation being 0.799, an indication that the variations in responses were acceptable since the standard deviations were less than 1.

5.2. 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 financial products from these financial institutions.

Savings were therefore noted to influence access to financial products on the basis that amount of credit borrowed, prevailing interest rates, frequency of borrowing and the type of financial 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 financial 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 financial 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.

5.3. Recommendations

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

The entire financial 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.

5.4. Areas of further study

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

ii. 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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APPENDICES

Appendix I: Questionnaire

I am Nyiratebuka Esperance, a student of Kabale University offering masters of business administration. I am carrying out my research on "Access to finance and performance of small scale enterprises in Uganda case of selected SME"S in Kabale municipality". I kindly request you to provide the necessary information having chosen you to be one of the respondents to enable me complete my research successfully. This questionnaire is for academic purposes only and will be kept confidential.

Thank you in advance.

PART 1: FACE SHEET: PROFILE CHARACTERISTICS OF THE RESPONDENTS

Direction: Please tick or specify the right answer as may be indicated.

1. Respondent Characteristics

Gender of business owner__________Age of business owner_____________

Legal form of business_____________Number of employees____________

Age of Business__________________Type of Industry/Sector___________

2. Please Tick:

A. Your age is between: 1. 20-39 ☐ 2. 40-59 ☐ 3. 60-Above ☐

B. Your gender 1. Male ☐ 2. Female ☐

C. Your highest education level falls under: 1.high school ☐ 2.college certificate ☐

3. diploma ☐ 4. degree ☐ 5. others

D. Number of employees in your organization: 1. 1-5 ☐ 2. 6-10 ☐ 3. 11-15. ☐ 4.16-20. ☐

5. 21 and above ☐

E. The legal form of business you have:1. Family business ☐ 2. Sole proprietorship ☐

3. Partnership ☐ 3. Limited company ☐

F. The sector of business you are in: 1. manufacturing ☐ 2. service ☐

G. The location of your business: 1. Central division ☐ 2. Southern division ☐

3. Northern division ☐

H. Number of years you have been in present business: 1. 1-3 ☐ 2. 4-6 ☐ 3. 7-10 ☐

4. 11 and above. ☐

PART 2: QUESTIONNAIRE TO DETERMINE EXTENT OF ACCESS TO FINANCE IN SMALL AND MEDIUM ENTERPRISES

Direction 1: Please respond to each item by ticking the appropriate. Kindly tick your best choice on the boxes of each item. Be honest about your options as there are no right or wrong answers.

Access to finance:

3. How do you normally access information about the financial services?

a) Local dailies ☐

b) Company newsletters ☐

c) Convened meetings ☐

d) From other clients ☐

4. Which financial institutions do you commonly access?

a) Banks ☐

b) Sacco‟s ☐

c) Group savings ☐

5. Indicate the highest credit amount disbursed for you

a) Below 10,000 ☐

b) 10,000-50,000 ☐

c) 50,000-90,000 d) ☐

90,000-130,000 e) ☐

Above 130000 ☐

6. Indicate distribution channels these financial institutions use to reach the customers

a) Agency banking ☐

b) Staff visits ☐

c) Customer visits ☐

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

7. State the extent to which you agree or disagree that interest rates influence how much one

can borrow

a) Strongly agree b) ☐

Agree ☐

c) Neutral d) ☐

Disagree ☐

e) Strongly disagree ☐

8. How often do you borrow for your business to progress?

a) Below one year b) ☐

2-3 ☐

c) 4-5

d) Above 5 ☐

9. In your own opinion explain the influence of cost of credit on the access to financial services by your business enterprise

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

10. State the conditions upon which you normally obtain financial services a)

Savings ☐

b) Assets ☐

c) Liquidity ☐

d) Credit history ☐

e) Others (specify)…………………………………………………………

11. How suitable are these conditions to your business financial needs?

a) Extreme Suitable b) ☐

Suitable ☐

c) Neutral ☐

d) Less suitable ☐

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

12. In your own opinion explain how collateral influences access to financial services from financial institutions of Kabale municipality.

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

13. Explain how accessibility to information influences access to financial services

……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………

14.To what extent do you agree or disagree that you easily access financial services from financial institutions

a) Strongly agree ☐
b) Agree ☐
c) Neutral d) ☐
Disagree ☐
e) Strongly disagree ☐

15. In your own opinion, explain the influence of accessibility of financial institutions on accessibility of financial services in Kabale Municipality.

……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………

PART 3: QUESTIONNAIRE TO DETERMINE THE LEVEL OF BUSINESS PERFORMANCE

16. Direction: Please write your preferred option on the space provided before each item.

Direction: Please respond to each item using the scoring guide below. Kindly write your best choice on the space before each item. Be honest about your options as there are no right or wrong answers.

Rating	**Response Mode**	**Description**	**Interpretation**
4	Strongly Agree	You are with no doubt at all	Very High
3	Agree	You agree with some doubt	High

2	Disagree	You disagree with some doubt	Low
1	Strongly Disagree	You disagree with no doubt	Very low

The Business:

_1. Is profitable

__2. Objective is sales maximization

__3. Other objective is cost minimization

__4. Current selling price is greater than cost price

__5. Income from sales always exceeds the expenses

__6. Rent costs are always lower as compared to sales

__7. Utility bills, salaries, wages and finance costs are lower

__8. Pays tax on profits

__9. Return on sales is always above 25%

__10. Return on assets is above 25%

__11. Return on equity is above 25%

__12. Has more than 25% of the market share

__13. Expects profits to increase by more than 40% this year

__14. Anticipates to have a sales increase by more than 40% this year

__15. Has clear key performance indicators

__16. Key performance indicators are reviewed regularly

__17. Has a sales team in place

__18. Has a mission statement

__19. Has opened up new sales outlets

__20. Has motivated staff

__21. Has full market information

__22. Has exports products to neighbouring countries

__23. Prepares a business plan

__24. Carries out marketing research

__25. Prepares forecast statements

__26. Assets have grown by more than 30% this year

__27. The number of employees have grown this year

__28. The customers are satisfied with our services/products

__29. The customers are retained

__30. The Customers prefer your products to those of competitors

Thank you for your cooperation

Appendix II: Interview Guide

1. Explain how the influence of cost of credit on access to finance affect the performance of selected SME‟S in Kabale municipality?
2. What is the influence of collateral on access to finance and performance of selected SME‟S in Kabale municipality?
3. What is the influence of information access to finance on performance of selected SME‟S in Kabale municipality?
4. What is the influence of accessibility of financial institutions on access to finance and performance of selected SME‟S in Kabale municipality?

Appendix III: 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.