FINANCIAL ACCESSIBILITY AND PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KABALE MUNICIPALITY-UGANDA

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DECLARATION

I, TURYOMUNSI AMBROSE, hereby declare that this research proposal on Financial Accessibility and Performance of Small and Medium Enterprises in Kabale Municipality is my own original work and has never been presented for any academic award to any institution of higher learning.

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TURYOMUNSI AMBROSE   **DATE**

2018/MBA/1796/W

APPROVAL

This is to certify that this Dissertation has been compiled and done under our supervision and is now ready for submission with our approval.

……………………… **…………………………….**

Dr. ETON MARUS (PhD) **Date**

(Supervisor)

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Dr. ABANIS TURYAHEBWA (PhD) **Date**

(Supervisor)

DEDICATION

This dissertation is dedicated to my beloved wife, Tusiime Irene, for her support as I was undertaking my daily studies; and my children, Owomugisha Pretty, Owamaani Princeon and Owamazima Polite, for their tolerance during my absence. The loving God bless you abundantly.

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I am indebted to a number of resourceful persons who played remarkable roles towards the accomplishment of this work.

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LIST OF ABBREVIATIONS

AMFIU	: Association of Microfinance Institutions of Uganda
GDP	: Gross Domestic Product
MSMEs	: Micro, Small, Medium, Enterprises
SMEs	: Small and Medium Enterprises
SPSS	: Statistical Package for Social Scientists
SSA	: Sub-Saharan Africa
UGX	: Uganda Shillings
UIA	: Uganda Investment Authority
UNBS	: Uganda National Bureau of Standards

ABSTRACT

The purpose of the study was to establish the relationship between financial accessibility and performance of SMEs in Kabale Municipality. The study was guided by three objectives: to assess the determinants of financial accessibility by SMEs in Kabale Municipality; to establish the performance challenges affecting the growth of SMEs in Kabale Municipality; and to examine the contributions of financial accessibility in supporting performance of SME in Kabale Municipality. A cross-section survey research design using both qualitative and quantitative approaches was used. A sample size of 200 participants was determined from a target population of 360 subjects using both simple random sampling and purposive sampling techniques. Data was collected using interview and questionnaire methods. Data was analysed using both descriptive (mean and standard deviation) and inferential (correlation and regression) statistics. These were aided by SPSS version 20. The findings indicate collateral security as the major determinant of financial accessibility. Low investment potential is the major challenge affecting performance of SMEs in Kabale municipality. There is a moderate positive and significant relationship between financial accessibility and performance of financial accessibility contributing as low as 17.4% of the level of performance of SMEs in Kabale municipality. The study contributes to the existing knowledge on financial accessibility and performance of SMEs by extending the application of the credit access theory and financial intermediation theory. The study recommended that business owners should venture into investment decision making to elevate their investment potential while Bank of Uganda should come up with policies that flexibly enable SMEs to access financial assistance.

CHAPTER ONE
INTRODUCTION

1.1 Introduction

This study was conducted to establish the relationship between financial accessibility and performance of Small and Medium Enterprises in Kabale Municipality. This section entails the background, statement of the problem, objectives of the study, research questions, scope, conceptual framework and justification of the study.

1.2 Background of the study

1.2.1 Historical perspective

Financial accessibility is defined as the ability of individuals or enterprises to obtain financial services, including credit, deposit, payment, insurance, and other management services, (Waithanji, 2014). Financial accessibility is referred to as a programme which directly lend all or part of money to firms (for example public loans or subsidized loans); guaranteed or partly guaranteed loans; provide financial education or information to firms (for instance, about financial services available); facilitate alternative forms of lending (for example, business angels, micro-finance, venture capital and group lending), by creating networks, incentivizing or matchmaking lenders and firms (Rajnoha et al., 2019). Accumulated evidence has shown that financial accessibility promotes growth for enterprises through the provision of credit to both new and existing businesses. It benefits the economy in general by accelerating economic growth, intensifying competition, as well as boosting demand for labour. The incomes of those in the lower end of the income ladder will typically rise, hence reducing income inequality (Kelley and Nakosteen, 2015). Financial accessibility is a major factor affecting the performance of Small and Medium Enterprises in most countries. Access to financing is critical to enable SMEs contribute to the economic development of the country (Hasnah, Saniza, Jayaraman, &Ishaka, 2015). Credit financing involves the procurement of interest-bearing instruments, secured by asset-based collateral and have term structures. The structure could be long-term, short-term or trade credit. To finance working capital, most SMEs rely on internal financing, and or short-term credit from suppliers, and or specialized financial products like factoring. In case of capital expenditures, which normally represent larger amounts than working capital needs, SMEs rely on internal financing, often involving fresh capital injections from shareholders (World Bank, 2015). Long-term funds are not suitable for short-term projects as they burden the firm with costs of servicing unnecessary debt. Similarly, short-term debts are not appropriate for financing long-term projects since the loan may have to be repaid before the end of the project, (Nderitu & Githinji, 2015).

Performance is defined as the extent to which the target task of the small and medium scale businesses are accomplished in comparison to the final output at the end of a business period (Yıldız et al., 2014). The performance of SMEs in both developed and developing countries has gained support for continuous development over the years. This is because of the contribution of SMEs to the employment creation. Evidence shows that a dynamic and growing SMEs sector can contribute to the achievement of a wide range of development objectives, including: the attainment of income distribution and poverty reduction; creation of employment; savings mobilization; and production of goods and services that meet the basic needs of the poor (Yeboah, Kwadwo and Adigbo, 2014). Padma et al. (2012) found that in India, young firms that grow have twice the probability of survival as young non-growing firms. It has also been found that young growth leads to the firm's profitability temporarily, but increase it in the long run. The performance of SMEs is believed to be a desirable end as the key drivers of employment and economic development.

Small enterprises are enterprises which employ between 5 and 49 employees and have a total asset of at least UGX 10 million but not exceeding 100 million. The medium enterprise, therefore, employs between 50 and 100 workers with total assets more than UGX 100 million but not exceeding UGX 360 million (Kakuru, 2015). In Uganda, a 'Medium Enterprise' is defined as an enterprise employing up to four people, with an annual sales/revenue turnover or total assets not exceeding UGX 10 million. On the other hand, Small Enterprises employ between 5 and 49 workers and have total assets of at least UGX 10 million but not exceeding 100 million. The Medium Enterprise, therefore, employs between 50 and 100 workers with total assets more than UGX 100 million but not exceeding UGX 360 million. The SME Division (SMED) of Uganda Investment Authority supports and facilitates the development of MSMEs that are majorly domestic entrepreneurs (Odongo, 2014).

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

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

Performance of SMEs can be measured by total sales, liquidity, and profitability (Kelley and Nakosteen, 2015). Maintaining optimal liquidity demonstrates that there are economies of scale associated with the cash levels required to confront the normal transactions of the firm. Sales growth is often used as a measure of performance. It has been argued that if sales increase, profits will eventually follow. Information on financial performance is useful in predicting the capacity of the enterprise (Nyanzi, 2015). Financial accessibility from MFI's in Uganda and other East African States is seen as the best alternative source of capital for low-income earners and their SMEs as a means to raise their income, hence enhancing their performance and contributing in country's economy (Ledgerwood et al., 2012). Financial accessibility by the majority of Ugandans who are low-income earners have created opportunity to them including managing scarce household and SME resources more efficiently, protection against financial risks by taking advantages of investment opportunities and gaining economic returns.

1.2.2 Theoretical perspective

The study was based on two theories: the credit theory and the theory of intermediation. The credit theory was postulated by Stiglitz and Weiss (1981) who provided a framework for analysing financial market inefficiencies. This framework provides that information asymmetry is the main cause of financial market malfunctioning in developing countries. Financial institutions that advance loans to economic agents are not only interested in the interest they receive on loans, but also the risks of such loans. Most financial institutions screen and monitor borrowers more efficiently than other investors can (Aremu and Popoola, 2011).

According to the theory of intermediation, current theories of the economic role of financial intermediaries build on the economics of imperfect information that began to emerge during the 1970s with the seminal contributions of Akerlof (1970), Spence (1973) and Bernanke and Blinder (1992). Financial intermediaries exist because they can reduce information and transaction costs that arise from an information asymmetry between borrowers and lenders. Financial intermediaries thus assist the efficient functioning of markets, and any factors that affect the amount of credit channelled through financial intermediaries can have significant macroeconomic effects (Hasnah et al., 2015).There are two strands in the literature that formally explain the existence of financial intermediaries. The first strand emphasizes financial intermediaries' provision of liquidity.

1.2.3 Conceptual Perspective

Financial accessibility varies according to many factors related to enterprises and the operating banks. One of the features which may be described as differentiating the terms of financial accessibility is the size of the enterprise. Small and medium-sized enterprises, despite their importance on economic development, encounter many difficulties in searching for capital due to insufficient amount of information forwarded to banks and its asymmetry. However, the better the economic condition of an enterprise and the more information about an enterprise available, the easier it is to gain access to bank funding (Eton et al., 2017).

In the context of Nigeria, about 80% of small and medium enterprises collapsed because of this problem of poor financing and other problems associated with it (Balunywa, 2012). SMEs are seen as instruments for reducing the poverty problem affecting the country and improving the economy of Nigeria. Therefore, the need for SME growth in Nigeria is beyond question. Studies by the IFC show that approximately 96% of Nigerian businesses are SMEs compared to 53% in the US and 65% in Europe; they contribute approximately 1% of GDP compared to 40% in Asian countries and 50% in the US or Europe (Suberu et al., 2011). SMEs are often discouraged in sourcing for funds from the traditional banks as they find accessing bank credit difficult. Evidence by Osoro and Muturi (2013) has shown that financial *access* promotes growth for enterprises through the provision of credit to both new and existing businesses. It benefits the economy in general by accelerating economic growth, intensifying competition, as well as boosting demand for labour.

Harash et al. (2014) classified small and medium enterprises as businesses with an annual turnover which does not exceed twenty five million naira and employing less than fifty seven (57) persons as employees. Nwigwe et al. (2012) define small and medium enterprises as any processing or manufacturing industry with an investment in machinery and equipment not above two hundred and fifty thousand naira (N250, 000). But due to economic changes worldwide, it has been classified as a business with a capital base ranging from five hundred thousand (N500, 000) to one million naira (N1, 000,000) with a staff strength of less than sixty (60) people. Small and Medium business has been seen as the bedrock of the production sector of any economy in the world. Hence, in defining small-scale business, experts in the subject use the limitation of capital investment to define it while others use the number of employees to define it. SMEs are widely defined in terms of their characteristics, which include the size of capital investment, the number of employees, the turnover, the management style, the location, and the market share (Yeboah et al. 2014). Country context plays a major role in determining the nature of these characteristics, especially the size of investment in capital accumulation and the number of employees. For developing countries, small-scale enterprises would generally mean enterprises with less than 50 workers and medium-size enterprises would usually mean those that have 50-99 workers (Nyanzi, 2015).

Financial accessibility plays an extremely important role in reducing poverty, approach an equitable distribution of wealth, supporting a comprehensive and sustainable development (WB, 2015). Conversely, lack of access to finance is the underlying cause which leads to income inequality, poverty trap and lower growth. Accessing banking services helps individuals and businesses to find affordable financial resources and/or funds to meet needs as business opportunities come, for an investment in children's education or for retirement savings. Bank loans also help farmers and the poor to protect themselves against financial shocks due to problems such as illness, disease, crop failures and natural disasters. A new paradigm of SME performance measure has been adopted by entrepreneurs. This is based on identifying what the business does in terms of levels of processes and attaching key performance indicators to those processes (John, 2010). The recording and analysis of the key performance indicators should significantly contribute to the achievement of business goals. Key performance indicators tell businesses how well they provide services, how long they take to process customer requests, their product delivery performance and how much time they spend fixing mistakes (Kelley and Nakosteen, 2015).

The main argument for favouring SMEs in developing countries is that they are increasingly playing a strategic role in economic growth and development through their contribution in the creation of wealth, employment, and income generation. In more developed economies, the dynamic arguments for the existence of SMEs have been stressed in terms of their being more innovative and constituting a seedbed for the development of new firms (Arinaitwe & Mwesigwa, 2015). In Uganda, SMEs are increasingly taking the role of the primary vehicles for the creation of employment and income generation through self-employment and, therefore, have been tools for SME performance. SMEs also provide the economy with a continuous supply of ideas, skills and innovation necessary to promote competition and the efficient allocation of scarce resources (Odongo, 2014).

Small and medium-scale enterprises have been considered as the engine of economic growth for promoting equitable development (Belás et al., 2017). The major advantage of the sector is its employment potential at low capital cost. The labour intensity of the SME sector is much higher than that of the enterprises. The role of small and medium enterprises in the economic and social development of the country is well established. The sector is a nursery of entrepreneurship, often driven by individual creativity and innovation. There is a general belief that desired employment generation in this country can be achieved through the development of small and medium-scale enterprises (Gertler & Kiyotaki, 2015). Love and Peria (2013) also posited that Small Scale Enterprises provide income, savings, and employment generation. According to Nkurunziza (2015), small and medium-scale enterprises can be regarded as one of the important element of a country's development and this plays a crucial role in the economy of Uganda**.**

1.2.4 Contextual Perspective

In Kabale municipality, financial accessibility allows SMEs to expand their businesses and to acquire the best management, thus ensuring their competitiveness and performance. However, due to their characteristics, SMEs in Uganda suffer from constraints that lower their resilience to risk and prevent them from growing and attaining economies of scale. The challenges are not only in the areas of financing investment and working capital, but also in human resource development, market access, and access to modern technology and information. Access to financial resources is constrained by both internal and external factors (Turyahebwa et al., 2013).

Financial accessibility has been identified in many business surveys as the most important factor determining the survival and growth of small and medium-sized enterprises in both developing and developed countries (Eton et al., 2017). Financial accessibility is the ease with which SMEs can get finance to undertake productive investments to expand their businesses and to acquire the latest technologies, thus ensuring their competitiveness and that of the nation as a whole (McCormick and Atieno, 2012); or it can be defined as an absence of price and non-price barriers in the use of financial services (World Bank, 2015). While performance is process or manner by which SMEs execute their function. Firm performance can be measured with different indicators, such profitability, and growth in employment, production level, or even sales. In addition, firms also have their own performance indicators (Okech and Atieno, 2012).

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

Credit to SMEs has caused trauma and self-pity fulfilment perpetuating a vicious cycle of financial problems to the majority borrowers. A survey on how repayment of credit/loans affect performance of rural enterprise, records in Uganda revealed that outstanding loan balances advanced to SMEs kept on growing in the subsequent years depicting a problem with performance of these enterprises (Turyahebwa, et al, 2013). Therefore, this background forms a foundation for the study on establishing the relationship between financial accessibility and performance of SMEs in Kabale District.

1.3 Statement of the problem

Many studies have been conducted in Uganda on financial accessibility as a challenge to the performance of SMEs. Actually, specific attention has been given to the high interest rate, collateral security requirements and small startup capital, and the small size of their operations that cannot meet credit requirement, and recommendations have been given (Turyahebwa et al., 2013; Nyanzi, 2015; Eton et al., 2017). However, small-scale businesses in Uganda continue collapsing before celebrating their first birth day. According to Private Sector Foundation Uganda (2016), about 5% to 10% of the businesses survive and make it to maturity. By observation, many small businesses in Kabale start and die within a space of a year or less due to financial challenges. While performance challenges associated to financial accessibility have been reported elsewhere in Uganda, there is no empirical evidence that shows the association between financial accessibility challenges and performance of SMEs in Kabale Municipality. This study was, therefore, conducted to bring out the performance challenges among SMEs in Kabale that are due to financial accessibility.

1.4 Purpose of the study

The purpose of the study was to establish the challenges of financial accessibility and performance of SMEs in Kabale Municipality.

1.5 Research objectives

i. To assess the determinants of financial accessibility by SMEs in Kabale Municipality;
ii. To establish the performance challenges affecting the growth of SMEs in Kabale Municipality;
iii. To examine the relationship between financial accessibility and performance of SMEs in Kabale Municipality.

1.6 Research questions

The researcher was guided by the following research questions:

i. What are the determinants of financial accessibility by SMEs in Kabale Municipality?
ii. What are the challenges affecting performance of SMEs in Kabale Municipality?
iii. What is the relationship between financial accessibility and performance of SME in Kabale Municipality?

1.7 Scope of the study

The scope of the study will be divided into three parts namely: the geographical scope, the content scope, time scope and theoretical scope.

1.7.1 Geographical Scope

The study will be carried out in SMEs of Kabale Municipality. Kabale Municipality is located in the Kabale District of the Kigezi sub-region. It is approximately 420 kilometres (260 miles) by road, south-west of Kampala, Uganda's capital and largest city. The town lies 2,000 metres (6,600 ft) above sea level. The coordinates of Kabale are: 01 15 00S, 29 59 24E (Latitude: -1.2500; 29.9900).

1.7.2 Content Scope

The study was conducted to establish the determinants of financial accessibility by SMEs in Kabale Municipality, to find out the challenges affecting the growth of SMEs in Kabale Municipality and the contributions of financial institutions in supporting SME growth in Kabale Municipality.

1.7.3 Time Scope

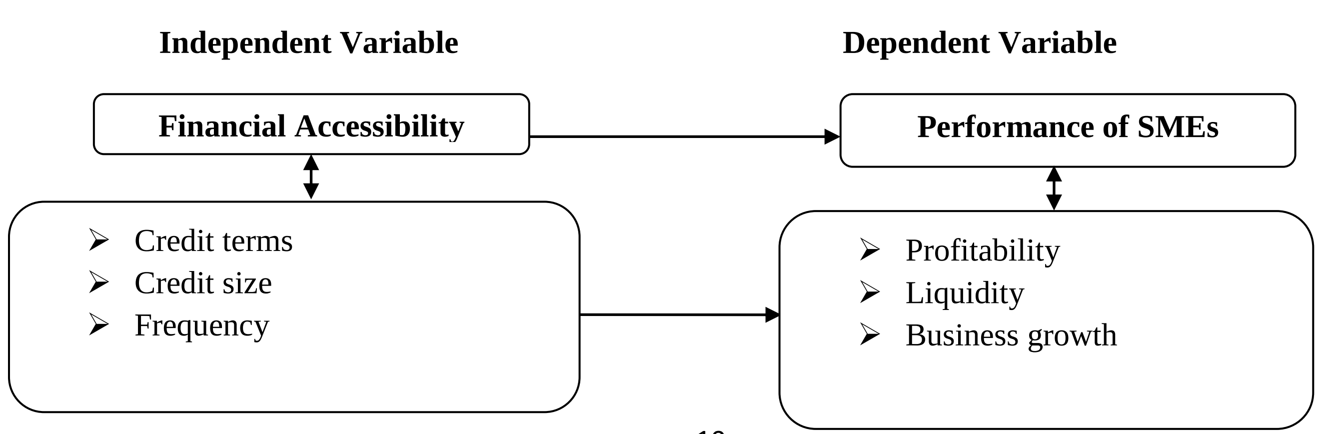
The study considered an operation period of 5 years from 2014 to 2019. However, closer references say from 2010 to 2013 were also be looked at in order to come with enough information valid for the study. This period was utilized by the researcher by writing a proposal which was approved by the supervisor and thereafter the researcher proceeded for data collection and compilation of the dissertation for submission.

1.7.4 Theoretical Scope

This study was underpinned by credit theory and the theory of financial intermediation. The credit theory was postulated by Stiglitz and Weiss (1981) who provided a framework for analysing financial market inefficiencies. The theory of financial intermediation focuses on financial intermediaries' ability to transform the risk characteristics of assets. In both cases, financial intermediation can reduce the cost of channelling funds between borrowers and lenders, leading to more efficient allocation of resources (Hasnah et al., 2015).

1.8 Conceptual Framework

The conceptual framework below focuses on the relationship between financial accessibility and performance of SMEs in Kabale Municipality. Financial accessibility was the independent variable and performance of SMEs was the dependent variable.



Source: Developed based on Claessens, (2016) and modified by the researcher

The conceptual framework depicted in Figure 1 shows financial accessibility as the independent variable while financial performance of SMEs was the dependent variable. The framework shows the effect of financial accessibility on SME performance. Also shown is the relationship between financial accessibility and financial performance of SMEs. According to Agarwal et al. (2013), credit terms are measured in terms of interest rate, collateral and repayment period. Financial accessibility is also measured by amount borrowed/volume and frequency of access which is the number of times one can access credit (Nakiyingi, 2010). It is noted that when frequency of access is high, SMEs access capital from financial institutions frequently, hence business growth is achieved in a short run and when the volume of credit is enough, it favours bulk purchases and hence satisfying the demand by the consumers which as well leads to better performance by SMEs.

In addition, performance of SMEs is measured by total sales, profitability, and liquidity (Eton et al., 2017). On the other side of independent variable, credit terms, credit size and frequency are conditions set by commercial banks to advance credit to meet working capital and short-term liquidity management, thus enhancing SME profitability and business growth. From the framework, therefore, it can be indicated that credit terms, credit size and frequency enhance profitability and business growth. Financial accessibility depends on the ability of the business to meet credit terms set by commercial banks. Therefore, improved access to more financial capital can help SMEs expand more and achieve liquidity, profitability, leading to improved business growth (Claessens, 2016).

1.9 Significance of the study

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

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

A broader access to financial services and credit will help the country as a whole in achieving its objective of improving income distribution while expanding opportunities through enhancement of entrepreneurial capabilities in the SME sector.

1.10 Definition of Key Terms

Financial accessibility is defined as the ability of individuals or enterprises to attain financial services including credit, deposit, payment, insurance and other management services.

Financial performance is defined as a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. The term is also used as a general measure of a firm's overall financial health over a given period.

Credit terms refers to standards or negotiated terms (offered by a seller to a buyer) that control the monthly and total credit amount, maximum time allowed for repayment, discount for cash or early payment, and the amount or rate of late payment penalty (Kakuru, 2007).

Microcredit is the extension of very small loans (microloans) to impoverished borrowers who typically lack collateral, steady employment, or a verifiable credit history. It is designed to support entrepreneurship and alleviate poverty.

Profitability is defined as the profit-earning capability of a business, product, project or programme. When all expenses and taxes have been paid, the revenue that is left is the profit

Liquidity refers to the ease with which an asset, or security, can be converted into ready cash without affecting its market price.

Payment frequency refers to the loan repayment schedule. Most loan companies give you a choice between monthly, semi-monthly and bi-weekly loan payments.

Business growth is defined as the process of improving some measure of an enterprise's success. Business growth can be achieved either by boosting the top line or revenue of the business with greater product sales or service income, or by increasing the bottom line or profitability of the operation by minimizing costs.

Small enterprises are enterprises which employ between 5 and 49 employees and have total assets at least UGX 10 million but not exceeding 100 million.

Medium Enterprise is defined as an enterprise employing between 50 and 100 people with total assets more than 100 million but not exceeding UGX 360 million.

Small and medium enterprises are defined as enterprises employing a minimum of 5 people and a maximum of 50 people, with an annual sales/revenue turnover of more than UGX 360 million and total assets of more than UGX 360 million.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature review from different sources like textbooks, magazines, newspapers, financial reports, newsletters and previous research dissertations among others. The literature is reviewed according to study objectives.

2.2 Critical Review of Theories

2.2.1 Credit Access Theory

The credit theory was postulated by Stiglitz and Weiss (1981) who provided a framework for analysing financial market inefficiencies. This framework provides that information asymmetry is the main cause of financial market malfunctioning in developing countries. Financial institutions that advance loans to economic agents are not only interested in the interest they receive on loans, but also the risks of such loans. Most financial institutions screen and monitor borrowers more efficiently than other investors can. They are specialized in gathering private information and processing it. Managing money and deposit accounts, banks own highly strategic information on firms' receipts and expenditures as well as the way firms develop (Aremu and Popoola, 2011).

In reference to Stiglitz and Weiss (1981), adverse selection and thus credit rationing still occurs if banks require collateral. They argue that low-risk borrowers expect a lower rate of return on average. Thus, they are less wealthy than high-risk borrowers on average after some periods. Low-risk borrowers are therefore not able to provide more collateral. Increasing collateral requirements may have the same adverse selection effect as a higher interest rate. Instead, Koech (2011) argues that banks only offer contracts in which they simultaneously adjust interest rates and collateral requirements. He proved that there is always a combination of interest rate and collateral requirements so that credit rationing does not occur (Nyanzi, 2015).

2.2.2 The Theory of Financial Intermediation

According to the theory of intermediation, current theories of the economic role of financial intermediaries build on the economics of imperfect information that began to emerge during the 1970s with the seminal contributions of Akerlof (1970), Spence (1973) and Bernanke and Blinder (1992). Financial intermediaries exist because they can reduce information and transaction costs that arise from an information asymmetry between borrowers and lenders. Financial intermediaries thus assist the efficient functioning of markets, and any factors that affect the amount of credit channelled through financial intermediaries can have significant macroeconomic effects (Hasnah et al., 2015). There are two strands in the literature that formally explain the existence of financial intermediaries. The first strand emphasizes financial intermediaries' provision of liquidity.

The second strand focuses on financial intermediaries' ability to transform the risk characteristics of assets. In both cases, financial intermediation can reduce the cost of channeling funds between borrowers and lenders, leading to a more efficient allocation of resources. Paal and Wisemann (2016) analysed the provision of liquidity and the transformation of illiquid assets into liquid liabilities by banks. Banks can improve on a competitive market by providing better risk sharing among agents who need to consume at different times (Muktar, 2017). An intermediary promising investors a higher payoff for early consumption and a lower payoff for late consumption relative to the non-intermediated case enhances risk sharing and welfare (Ojo, 2012). The proponents of this theory explain that in the modern theory of financial intermediation, financial intermediaries are active because market imperfections prevent savers and investors from trading directly with each other in an optimal way.

2.3 Financial accessibility

Financial accessibility remains a constraint to SMEs as regards to working capital. SMEs have limited access to capital markets, locally and internationally, in part because of the perception of higher risk, informational barriers, and the higher costs of intermediation which constrains growth and competitiveness. Studies on SMEs have pointed out that financial accessibility is an impediment to SMEs’ contribution as an engine to national economic development, (Onyimba & Muturi, 2016).

2.3.1 Credit terms

Credit terms refer to standards or negotiated terms (offered by a seller to a buyer) that control the monthly and total credit amount, maximum time allowed for repayment, discount for cash or early payment, and the amount or rate of late payment penalty (Kakuru, 2015). According to Okech et al. (2012), credit terms include factors such as interest rate, collateral and loan repayment periods. Collateral required by commercial banks in developing countries has been a contentious issue in SME financing. However, real-estate collateral provides an incentive and a justification to lend and repay, as well as a means to offset losses in case of default (Davydenko et al., 2017).

Banks in developing countries tend to be less exposed to SMEs. Firstly, banks provide lower share of investment loans, and charge higher fees and interest rate (Yeboah et al., 2014). Interest can be defined as the premium received by the lender after a stated period. From the borrower’s point of view, interest is the cost of capital at the time of obtaining a loan. According to Balunywa (2012), interest rate in the context of demand for credit by the SMEs is the measure of the price paid by a borrower to a lender for use of financial resources for a time interval. Banks believe that lending to SMEs entails higher risks and larger transactions costs thereby justifying their high interest rates (Waithaka & Njeru, 2015).

The very demanding requirements and bureaucratic lending procedures by the formal financial institutions remain a challenge to credit access by SMEs (Otieno et al., 2015). These bureaucratic lending procedures require that a number of SMEs provide accurate information on their financial status (Otieno et al., 2015), which they do not have in most cases. The environment in which SMEs operate is too rudimentary to facilitate documentation. SMEs’ customers do not ask for receipts whenever they buy goods; suppliers do not ask for invoices, private contracts are rarely documented and requirements for audited accounts are not enforced (Turyahebwa et al., 2013) thus making it difficult to keep and produce information to creditors whenever required. For small businesses, owner characteristics may be the most important determinant of a bank’s credit decision, yet most of these characteristics cannot be documented by any database (Amornkitvikai & Harvie, 2016).

In addition, **c**ollateral security seems to be the greatest hindrance to financial credit by SMEs. Collateral refers to security or guarantee for the loan borrowed (Hasnah, Saniza, Jayaraman, &Ishaka, 2013). In Uganda, for example, the Bank of Uganda stipulates that all loans above a certain minimum must be adequately secured, with first-class guarantees or a bond over property as preferred by the security type (Calice, Chando, & Sekiou, 2012) , which most SMEs do not have. Where the required security does not fit the needs of the target group, potential borrowers will not apply for credit even when it exists; and when they do, they will be denied access. Failure of SMEs to meet bank requirements for credit acquisition leaves them open to alternative sources of credit (Waithaka & Njeru, 2015).

2.3.2 Credit size

Rosenberg (2009) in his study findings supported financial institutions that prefer large loans because the administrative costs decrease proportionately to the size of the loan. Kalema (2013) conducted a research study on access to financial services in Uganda and found that the average loan size was under UGX 300, 000 and loan terms generally between one and twelve months. Because of the small size of SMEs combined with small loans, lending rates are typically in excess of 30 per cent to reduce the risks involved in unsecured lending. On the contrary, IMF financial sector assessment (2013) reported that this is an unattractive means of financing SMEs' activities. The report continued that most low-income SMEs are better advised to defer borrowing until they have the necessary finance rather than borrow at such rates. Various studies also indicated that most SMEs consider small loans amount to meet immediate needs because SMEs do not have capacity or experience to handle large sums of money in their businesses and even this can lead to business failure. Loans are given depending on one's savings with financial institution and the SME's previous loan repayment, (Amornkitvikai & Harvie, 2016). Most of these loans are lent out depending on the collection convenience, payment and flexibility with experienced clients. Financial institutions tend to meet their clients. working capital by giving short-term loans and limit long-term loans. Financial institutions cite weak SME management and governance, unreliable financial information on SME operations, lack of medium- and long-term resources for typical SME lending, and complicated procedures to register and seize collateral as the main constraints to funding SMEs with large loans amount (Gertler & Kiyotaki, 2015).

2.3.3 Frequency

Frequency in financial accessibility also has a significant influence on SME performance. When SMEs access credit from financial institutions, there is a tendency of not paying back the borrowed capital (Muktar, 2017). In support of the view, Nugroho (2013) observed also that if the loan term is too short, the borrower fails to generate revenue to enable him/her make repayments while a longer loan term may make the client extravagant and the client may in the end fail to pay back. Access to finance is measured by amount borrowed/volume and frequency of access which is the number of times one can access credit (Nakiyingi, 2010). Therefore, for successful results, the loan terms should match the cash patterns to help the client budget cash flows.

Payment frequency refers to the loan repayment schedule. Most loan companies give you a choice between monthly, semi-monthly and bi-weekly loan payments. According to Rajnoha et al., (2019), financial institutions initially focused on standard commercial loans to individuals and experienced a high volume of non-performing loans, but they later improved performance by adjusting the terms of the loans, generally to short-term (4-6 months), and retaining a compulsory up-front savings of 20 per cent as a security. The long repayment period depends on the amount of the loans since the banks have to calculate a number of objective and subjective factors of the national economy when forming the terms of credit and lending procedures (Osoro and Muturi, 2013).

Generally, a more frequent loan payment schedule (bi-weekly payments) allows one to pay off the loan faster, which ultimately saves money on interest (Muktar, 2017). On the other side, a less frequent payment schedule (monthly payments) tends to make the loan payments more affordable and manageable, as one will be paying less towards the loan overall each year. Choose the payment schedule based on the priorities. If one can afford to spend more on loan repayment, bi-weekly loan payments are a great option. If one want to keep loan payments more manageable, stick with semi-monthly or monthly payments (Bitila, 2014). A shorter loan term will increase on loan payment amount, as one will be paying off the loan faster. However, the loan will be paid off quicker and less interest will be incurred over time. A longer loan term will decrease loan payment. If one can afford a higher loan payment, take advantage of the benefits of a shorter term. However, if the client looking for a bit more flexibility in the budget, the client will likely benefit from a longer loan term.

2.4 Performance of SMEs

Calice et al., (2012) define performance as a function of an organization's ability to meet its goals and objectives by exploiting the available resources in an efficient and effective way. Finance and accounting literature evaluates SMEs' performance by applying financial ratios such as profitability ratios, liquidity ratios, market ratios, and debt ratios, yet these are just the last performance indicators, as they are in fact influenced by how firms perform in terms of their efficiency and productivity, and how inputs and product prices change (Amornkitvikai & Harvie, 2016). However, SMEs' performance may be measured using objective, subjective and operational measures (Harash, Suhail, &Jabbar, 2014). Financial measures (derived from the accounts of a company) are referred to as objective measures because they can be individually measured and verified. Traditional statement of finance performance, statement of assets and liabilities and management account, are not enough to effectively measure performance of businesses, which are seeking to survive and add shareholder/owner value. Measuring performance in SMEs requires identifying what the business does in terms of levels of processing and attaching key performance indicators to those processes (Madole, 2013).

2.4.1 Profitability

Profitability is the greatest indicator of performance of SMEs that struggle for survival, on top of proving their creditworthiness and solvability to their financiers. In this study, income and expenses are used to measure profitability. Profitability is the excess of revenue over expenses, which is seen by the ratios like gross profit margin and pre-tax margin (Odongo, 2014). Though profitability ratios are essential in measuring performance, their measurements are rather in most SMEs. This is because most SMEs in developing countries lack proper documentation

(Turyahebwa et al., 2013). SMEs which survive on loaned capital struggle to cover their debt costs. The more firms cover debt costs using operating capital, the more they experience decreasing levels of profitability. The same study observed that high debt costs reduce the profits earned by shareholders. Profitability measures help in assessing the success of a business undertaking. An undertaking that is not generating profits/revenue cannot survive (Eton et al., 2017). A profitable undertaking has the capacity to pay back the owners in form of return on investment made.

2.4.2 Liquidity

Liquidity refers to the ease with which an asset, or security, can be converted into ready cash without affecting its market price. According to Harash and Jabbar (2014), liquidity describes the degree to which an asset can be quickly bought or sold in the market at a price, reflecting its intrinsic value. Cash is universally considered the most liquid asset because it can most quickly and easily be converted into other assets. Tangible assets, such as real estate, fine art, and collectibles, are all relatively illiquid. Other financial assets, ranging from equities to partnership units, fall at various places on the liquidity spectrum. The two main measures of liquidity in SMEs are market and accounting liquidity. Market liquidity refers to the extent to which a market, such as a country's stock market or a city's real estate market, allows assets to be bought and sold at stable, transparent prices. In the example above, the market for refrigerators in exchange for rare books is so illiquid that, for all intents and purposes, it does not exist (Popa & Ciobanu, 2014). The stock market, on the other hand, is characterized by higher market liquidity. If an exchange has a high volume of trade that is not dominated by selling, the price a buyer offers per share (the bid price) and the price the seller is willing to accept (the ask price) will be fairly close to each other. Investors, then, will not have to give up unrealized gains for a quick sale. When the spread between the bid and ask prices grows, the market becomes more illiquid. Markets for real estate are usually far less liquid than stock markets. The liquidity of markets for other assets, such as derivatives, contracts, currencies, or commodities, often depends on their size, and how many open exchanges exist for them to be traded on (Otieno et al., 2015).

The second one is accounting liquidity which measures the ease with which an individual or company can meet their financial obligations with the liquid assets available to them the ability to pay off debts as they come due (Popa & Ciobanu, 2014). In the example above, the rare book collector's assets are relatively illiquid and would probably not be worth their full value of $1,000 in a pinch. In investment terms, assessing accounting liquidity means comparing liquid assets to current liabilities, or financial obligations that come due within one year. There are a number of ratios that measure accounting liquidity, which differ in how strictly they define "liquid assets." Analysts and investors use these to identify companies with strong liquidity. It is also considered a measure of depth (Turyahebwa et al., 2013).

2.4.3 Business growth

Business growth entails tasks and processes to develop and implement growth opportunities within and between organizations. It is a subset of the fields of business, commerce and organizational theory (Suberu et al., 2011). Business growth is the creation of long-term value for an organization from customers, markets, and relationships. Business growth can be taken to mean any activity by either a small or large organization, non-profit or for-profit enterprise which serves the purpose of 'developing' the business in some way. In addition, business growth activities can be done internally or externally by a business growth consultant. External business growth can be facilitated through Planning Systems, which are put in place by governments to help small businesses. In addition, reputation building has also proven as helping to facilitate business growth.

A growing business is one that is expanding in one or more ways. There is no single metric used to measure growth. Instead, several data points can be highlighted to show a company is growing. These include: revenue, sales, company value, profits, number of employees and number of customers, (Gertler and Kiyotaki, 2015). Companies can grow in some of these metrics but not in others. For example, revenue can grow without an increase in customers if the gains are caused by existing clients buying more. It is even possible for one metric to increase while another decreases; if sales growth is brought about by a reduction in product price, a business's overall revenue could still go down. This means defining growth can be difficult. Those looking to grow their business should look at their business goals to establish the growth metrics they find important. For some ambitious start-ups, this could mean doing everything they can to increase the total number of customers, even if they make a huge loss in the early phases of growth. However, other businesses will benefit from slowly increasing revenue and sales to ensure money is coming in to help cover costs (Pietrzak et al., 2019).

2.5 Determinants of Financial Accessibility by SMEs

Otieno, Muganda and Wekesa (2015) notes that financial institutions in many developing countries prefer to lend to the government rather than private sector borrowers because the risk involved is lesser and higher returns are offered. Such apathy for the SMEs has crowded out most private sector borrowers and increased the cost of capital for them (Eton et al., 2017). Access to bank credit and its availability is one of the key factors to be considered in the development of a company. Many Polish companies use bank loans as the main source of external capital. Financial accessibility varies according to many factors related to enterprises and the operating banks. One of the features which may be described as differentiating the terms of credit availability is the size of the enterprise. Small and medium-sized enterprises, despite their importance for economic development, encounter many difficulties in searching for capital due to an insufficient amount of information forwarded to banks and its asymmetry. However, the better the economic condition of an enterprise and the more information about an enterprise available, the easier it is to gain access to bank funding.

Financial accessibility is a major factor affecting the performance of SMEs. The adequate access to financing is critical to enable SMEs to contribute to the economic development of the nation (Hasnah et al., 2015). The structure could be long-term, short-term or trade credit. To finance working capital, most SMEs rely on internal financing, and or short-term credit from suppliers, and or specialized financial products like factoring. In case of capital expenditures, which normally represent larger amounts than working capital needs, SMEs rely on internal financing, often involving fresh capital injections from shareholders (World Bank, 2015). Long-term funds are not suitable for short-term projects as they burden the firm with costs of servicing unnecessary debt. Similarly, short-term debts are not appropriate for financing long-term projects since the loan may have to be repaid before the end of the project (Eton et al., 2017). Although there are many bank and non-bank financial institutions that would be willing to provide funds to SMEs in Lira Municipality, SMEs are not able to meet the requirements of these financial institutions. Chief among these requirements are the high interest rates, creditor information and collateral security.

A determinant of credit availability for enterprises is also the length of an enterprise and bank's cooperation, especially if it goes to the cooperation of relational character. Ishengoma and Lokina (2012) showed that the long-term relationship strengthens the bank's inclination to financing the familiar enterprises' projects. The cooperation does not have to relate to crediting. A lot of information about the condition of the enterprise is supplied through the observation of changes in the current (trading volume, quality, and number of contractors, etc.) or deposit accounts (Belás et al., 2017).

The banks' interest in financing the enterprises not checked before is a result of the necessity of soliciting customers and enhancing the credit portfolio. In the uncompetitive market, the banks have a tendency to smooth out the rate of return from crediting one entity. In the initial period of its existence, they provide relatively cheap capital, the cost of which increases in time. It results from the fact that banks wrongly price the credits given to young, unknown entities or they evaluate the mature, well-established entities in a highly restrictive way. In addition, banks in the uncompetitive market count on the future benefits from crediting a given company and that is why they decide to provide a relatively cheaper capital at the beginning of its functioning (OECD, 2013).

Young SMEs which obtain bank loans are deeper in debt (the ratio of credit to total assets) in the uncompetitive market than in the competitive one. Mature companies are in a reverse situation. Rajnoha et al. (2019), analyse the influence of growing competition in the banking sector, compared two methods of banks and enterprises cooperation (transactional and relational). They came to a conclusion that, regardless of the method of cooperating with enterprises, banks' profits decrease together with the increase of competition among them. However, it happens asymmetrically. Relational cooperation (in view of a unique character of information the banks administrate) allows protecting bank's profits from the dangers of the growing competition in the sector. Possible reductions of profit refer to the benefits reached from transactional crediting. Another aspect was discussed by Pietrzak et al. (2019), the quality of entrepreneurial environment becomes more and more important, and it may be an obstacle for growth for peripheral countries and regions.

Financial accessibility in developing countries tends to be less exposed to SMEs. Banks provide lower share of investment loans, and charge higher fees and interest rate (Yeboah et al., 2014). Interest can be defined as the premium received by the lender after a stated period. From the borrower's point of view, interest is the cost of capital at the time of obtaining a loan. Interest rate in the context of demand for credit by the SMEs is the measure of the price paid by a borrower to a lender for use of financial resources for a time interval. Banks believe that lending to SMEs entails higher risks and larger transactions costs, thereby justifying their high interest rates. According to Osoro and Muturi (2013), many inefficient firms that had been favoured by government and getting credit at low rates simply collapsed when the financial sector was liberalized. The high interest rates charged by the formal and semi-formal sectors are high, which crowd the benefits associated to informal sector financing.

Collateral security seems to be the greatest hindrance to financial accessibility by SMEs. Collateral refers to security or guarantee for the loan borrowed (Hasnah et al., 2015). In Uganda, for example, the Bank of Uganda stipulates that all loans above a certain minimum must be adequately secured, with first-class guarantees or a bond over property as preferred by the security type, which most SMEs do not have. Where the required security does not fit the needs of the target group, potential borrowers will not apply for credit even when it exists and when they do, they will be denied access. Failure of SMEs to meet bank requirements for credit acquisition leaves them open to alternative sources of credit. Abdulaziz and Worthington (2013) pointed out that offering more trade credit to SMEs can assist these firms in their post-entry survival, thereby strengthening their opportunity to thrive. They, however, emphasized that bank financing helps SMEs accomplish better performance levels as the borrowed funds are employed more efficiently when they are monitored by, and answerable to, the bank. This implies that SMEs are likely to use their own or family funds to start and operate their businesses (Amornkitvikai & Harvie, 2016).

Nwigwe et al. (2012) argue that inflexible and non-negotiable repayment schedules of Micro finance institutions have implied little assistance in coping with stress events and financial shocks suffered by members and have also caused liquidation of assets by families in order to meet deadlines. MFIs provide similar products and services to their customers as formal sector financial institutions. The scale and method of delivery differ, but the fundamental services of savings, loan repayments and insurance are the same. Notwithstanding, to date most efforts to formalize micro finance lending (loans for enterprise formation and development) together with short repayment schedules normally one week or two which remain far today the dominant repayment schedules offered by micro finance institutions (Madole, 2013).

Microfinance loans vary in size and will greatly depend on the number of loan cycles made by the client. Findings by George (2014) indicated that the size or amount of loans issued by MFIs is too small to make an impact on women businesses. He further noted that women clients were taking multiple loans due to the fact that the first loans taken did not provide adequate impact and hence the need to take a second one. Yeboah et al. (2014) also observed that the small loans given when it cannot be used to meet the business demands will always be diverted to other uses other than the business. Some mechanisms have been designed to reduce the risk that individual behavior may impose on the group as a whole. Sequential lending, when loans are provided sequent to different sub groups of borrowers participating in a given group lending scheme, is one example that reduces coordination failure risks (Okech et al., 2012).

The very demanding requirements and bureaucratic lending procedures by the formal financial institutions remain a challenge to credit access by SMEs (Otieno et al., 2015). These bureaucratic lending procedures require that a number of SMEs provide accurate information on their financial status (Otieno et al., 2015), which they do not have in most cases. The environment in which SMEs operate is too rudimentary to facilitate documentation. SMEs customers do not ask for receipts whenever they buy goods, suppliers do not ask for invoices, private contracts are rarely documented and requirements for audited accounts are not enforced thus making it difficult to keep and produce information to creditors whenever required. For small businesses, owner characteristics may be the most important determinant of a bank's credit decision, yet most of these characteristics cannot be documented by any database. The failure of SMEs to secure credit due to their information opacity manifests in the start-up phase. However, Amornkitvikai & Harvie (2016), noted that in the subsequent stages of growth as SMEs mature, they start to establish a track record in addition to the ability to provide collateral. Lenders are thus worried about their adverse selection costs and increased risk of moral hazard behaviour with SMEs.

The processes of mergers and acquisitions in the banking sector also influence financial accessibility for enterprises. The analysis of the influence of consolidation processes in the banking sector on financial accessibility for small and medium-sized enterprises showed that if the processes related to big banks, financing of smaller enterprises was highly limited. However, if smaller banks merge, the effect is the reverse: financial accessibility for SMEs increases. It means that big banks willingly get rid of small debtors who they cooperate with basing on the relational model and decide to start cooperation of transactional type (Osoro and Muturi, 2013).

2.6 Performance challenges affecting SMEs

This section addresses key types of SME constraints. These are: lack of assets, limited market access, high tax rates, and access to productive resources, competition, and investment obstacles among others. The theoretical consideration on the link between SME constraints and the growth potential or performance of SMEs can be viewed from different angles. SME constraints may, on the one hand, limit physical capital accumulation. On the other hand, they may constrain a firm's ability to undertake its daily operations since they may reduce its internal financing and its capacity to make proper business decisions. Moreover, they may interrupt a firm's business operations and therefore retard its performance (Qureshi et al., 2012).

2.6.1 Lack of assets

The persistent lack of assets and weak financial foundations often make it difficult for SMEs globally to perform and expand in their operations, consequently the inadequate equity capital invested in SMEs makes these businesses more reliant on other sources such as bank lending and other types of financial accessibility (Harash et al., 2014). Most SMEs rely on either internal financing from suppliers or specialized financial products. Internal borrowings sometimes involve fresh capital injections from shareholders, owner's personal savings, and retained or undistributed profits from the business obtained in the previous years (Yeboah et al., 2014). External informal sources include suppliers, financial assistance from family and friends, trade credit, venture capital and angel financiers (Abdulaziz and Worthington, 2013) while formal external sources represent financial intermediaries such as banks, financial institutions and securities. While there are many sources of credit available to SMEs, Nderitu and Githinji (2015) argue that SMEs should focus only on trade credit in order to optimize their financial performance.

2.6.2 Limited access to capital

Financial accessibility remains a constraint to SMEs as regards to working capital. SMEs have limited access to capital markets, locally and internationally, in part because of the perception of higher risk, informational barriers, and the higher costs of intermediation, which constrains growth and competitiveness. Studies on SMEs have pointed out that financial accessibility is an impediment to SMEs' contribution as an engine to national economic development (Onyimba & Muturi, 2016). Credit to SMEs has caused trauma, self-pity and fulfilment perpetuating a vicious cycle of financial problems to majority borrowers. A survey on how repayment of credit/loans affect performance of rural enterprise records in Kenya revealed that outstanding loan balances advanced to SMEs kept on growing in the subsequent years depicting a problem with performance of these enterprises. They noted that availing credit to SMEs does not necessarily lead to additional assets, expand market share or increase the ability to purchase additional stock. Financial accessibility determines SMEs' competitive readiness and ability to fully exploit and participate in the global economy and business opportunities stemming from economic integration (Ojo, 2012).

Perkowski (2012) said that financial accessibility is a challenge for businesses in any country. Entrepreneurs in developing countries require micro-credit and other services from micro-finance institutions for several reasons; to speedily expand their operations, for start-up capital, for working capital or for other purposes. Providing micro-credit and other services to small and medium enterprises has traditionally been challenging for micro-finance institutions. On the one hand, the challenge may be related to a lack or non-existence of financial history and the inability to provide the required collateral among small and medium enterprises. On the other hand, the absence of credit bureau data and regulatory bodies at national level is challenging. In addition, Suberu et al. (2011:254) stated that a shortage of both debt and equity financing is one of the major barriers to rapid development of the small and medium enterprises.

2.6.3 Limited investment potential

The role of investment in economic growth has been acknowledged in different economic and or strategic management literature. At the macro level, the traditional approach to growth associates national or regional economic growth with capital accumulation (level of investment in physical assets). In the global value chain literature, it is argued that technical upgrading (that is, investment in modern technology) is among the ways to increase firms' 'competitiveness in the global market (McCormick and Atieno, 2012). Following the argument by Reinikka and Svensson (2012), factors that constrain firms' investment consequently limit their growth. The SME constraints under examination are expected to limit investment upgrading and therefore limit firms' growth potential and performance in several ways. When SMEs have limited access to relatively differentiated markets, they are forced to operate in low-income market segments. This limits their levels of sales and profits since most of them compete for the same customers. Low sales and profit may discourage firms' future investments and therefore their growth. Moreover, the majority of SMEs, particularly those involved in manufacturing, have limited access to external financing. As a result, they depend mainly on their internal resources to finance investment (Ishengoma & Lokina, 2012). Thus, low profit may imply limited internal resources, which may in turn limit firms' capacities to upgrade their investments.

2.6.4 High taxation rates

High tax rates reduce firms' internal sources of finance. In some developing countries, including Uganda, they also discourage SMEs from expanding their operations and becoming visible to governmental officials, since being visible or operating formally is likely to increase the cost of operating (Ishengoma and Kappel, 2014). SMEs may overcome the problem of high taxes if they have access to external finance (for example, loans) to boost their businesses and expand their tax base. This may supplement their limited internal resources and therefore enable them to upgrade their investment (physical assets). Through investment upgrading, they are likely to increase their productivity and tax base (Reinikka and Svensson, 2012) and improve the quality of their products. Consequently, their market access can be enhanced, since they may be able to target customers with relatively higher incomes. They may also utilize loans to expand their level of operation by increasing output. This may increase their capacity utilization and therefore reduce overhead costs per unit, hence increasing the productivity and competitiveness of their products. However, high taxes reduce profitability and may also affect loan repayment thereby increasing liquidity problems. High tax rates reduce firms' internal sources of finance. In some developing countries, including Uganda, they also discourage MSEs from expanding their operations and becoming visible to governmental officials, since being visible or operating formally is likely to increase the cost of operating (Ishengoma and Kappel, 2014).

2.6.5 Limited access to markets and market information

Among the factors expected to hinder the growth potential of SMEs is their limited access to business services (BSs) (viz., marketing information, networking, short-term training, counselling and consultancy services) (Ishengoma and Kappel, 2014). Access to marketing information is expected to increase SMEs' market knowledge about the behaviour of their customers, price, and the best sources of inputs. Through counselling and consultancy services, SMEs can solve some of the technical problems they face. Their participation in networking activities may enable them to obtain more technical and marketing information about the behaviour of their customers, in terms of honouring their debts; new customers and business partners.

2.6.6 High transport costs

Besides the above-stated obstacles, another factor which may cause SMEs to fail to upgrade their investments is the high cost of capital goods and related technical services. Nyanzi (2015) reports that poor transport systems and high domestic and regional transport costs in Uganda increase the price of capital goods, which in turn discourages investment in capital goods that have to be transported for long distances. This argument might apply to landlocked countries which depend heavily on imported capital goods and spare parts. Another study was done by Koech (2011) to find out the financial constraints that hinder growth of SMEs in Kenya. The researcher adapted the case study approach and targeted SMEs in Kamukunji District. The study used structured questioners as the main tool for data collection. Data was analysed and by explanatory factor analysis and descriptive analysis was by the help of SPSS to obtain percentages and frequency distribution tables. The factors hindering growth of SMEs were identified as high transport costs, collateral requirements, information access and cost of registration. The study recommended that business financiers through loans consider reducing collateral requirements to facilitate SMEs' easy access to loans.

2.6.7 Reluctance of banks to grant loans to SMEs

Small and medium enterprises (SMEs) are always constrained by unfair credit policies in accessing capital, especially from the formal financial institutions (George, 2014). The lack of accessibility to finance the enterprises, therefore, is attributed to both the supply and demand factors in lending. On the supply side, banks are reluctant to grant loans to SMEs because of lack of reliable information on borrowers, low transparency of operations and poor accounting standards, lack of discipline in the use of credit facilities, the perception of the SME sector as risky, and difficulties in enforcing loan contracts. On the demand side, borrowers are constrained by the absence of collateral, improper bookkeeping, high rates of loan diversion and their inability to prepare feasibility studies. In less developed countries where there is a dearth of information on the operations of SMEs, there is always risk aversion by the financial institutions in funding the sector (Ogujiuba, 2015).

2.6.8 Competitive business environment

Financial institutions behave differently towards mature entities in the competitive markets as they charge a lower fee for credit. This explains why mature enterprises in an uncompetitive banking market finance investments basing rather on internal sources of finance than banking, and how banks adjust their corporate lending portfolio (Cahn, Christophe et al., 2017; Belás et al., 2017; Rajnoha et al., 2017). That is why the determinant of widely-understood financial accessibility for enterprises is the level of competition in the market of banking services. Young enterprises which obtain bank loans are deeper in debt (the ratio of credit to total assets) in the uncompetitive market than in the competitive one. Mature companies are in a reverse situation. Davydenko et al. (2017), analysing the influence of growing competition in the banking sector, compared two methods of banks and enterprises cooperation (transactional and relational). They came to a conclusion that, regardless of the method of cooperating with enterprises, banks' profits decrease together with the increase of competition among them. However, it happens asymmetrically. Relational cooperation (in view of a unique character of information the banks administrate) allows protecting bank's profits from the dangers of the growing competition in the sector. Possible reductions of profit refer to the benefits reached from transactional crediting. Another aspect was discussed by Pietrzak et al. (2017), the quality of entrepreneurial environment becomes more and more important, and it may be an obstacle for growth of small and medium enterprises in developing countries.

2.7 Contributions of Financial accessibility in supporting performance of SME

Numerous studies have been done on the contribution of micro finance to SME growth. Quaye (2011) studied the effect of micro finance institutions on the growth of small and medium scale enterprises (SMEs); a case study of selected SMEs in the Kumasi Metropolis. The study examined the detailed profile of SMEs in the Kumasi Metropolis of Ghana, the contribution of MFIs to entrepreneurial growth, the challenges encountered by SMEs in accessing credit and the rate of credit utilization by SMEs. An analysis of the profiles of SMEs shows that most SMEs are at their micro stages since they employ less than six people and the sector is hugely dominated by the commerce sub-sector. The research also indicates that MFIs have had a positive effect on the growth of SMEs.

A study done by Madole (2013) on the impact of financial accessibility on the performance of SMEs in Tanzania, shows that with credit obtained from NMB Bank in Morogoro, SMEs have been able to improve businesses in terms of: increased business profit, increased employees, increased sales turnover, increased business diversification, increased business capital and assets as well as reduction of poverty among customers surveyed. Results also show that collateral, age or experience of the SMEs owners, and, size of the firm influences the access of credit. The study by Gertler and Kiyotaki (2015) concluded that most of the small businesses depend on bank loan for business capital growth. Bank loan especially NMB loan plays a very crucial role to promote small business growth, although some of the small businesses fail to repay bank loan due to various reasons such as grace period, moral hazard and high interest rate. In regard to the findings, however, it was recommended that MFIs should increase credit and enhance participation in SME financing in order to sustain the growth and maximal contribution to economic growth and development of the nation (Davydenko et al., 2017).

There are obviously many dominant factors that could influence an MFI to give short, medium and long period for a loan to the SMEs due to high cost of resources (funds), high competition, unclear client credit history, security offered for loan, and loan sizes (Nwigwe et al., 2012). Nugroho (2013) added that in microfinance, the type of lending product is very short-term, low value, and to clients with no good credit histories. Nwigwe et al. (2012) also concurred that short-term loan is from overnight to less than one year which makes SMEs not perform well in their operations because of big instalment payments to be remitted back to the MFIs in a short time like weekly, fortnight and monthly payment since the loan grows bigger in the given time with high interest rate charge. The loan period given is not suitable for SME performance in the current economic crises. However, loan period of lending to SMEs can contribute positive performance and enhances the SMEs' business operations and expansion to its survival and productivity in achieving its goals and objectives in the short period of time. Contrary to the above authors, earlier researchers have shown that SMEs can perform well in the shorter period as well as they are able to maintain their financial records in order to ascertain their financial credit worth (Haan and Lakwob, 2015).

According to Engel and Lutz (2013), costs of money, loan period and loan size are good predictors of the SMEs financial performance because we are able to look at the sales turnover, payment ability, good returns in assets and the market share in the market, increase in profits and customer base maintained for a company to break even. He further agrees that the ability of the SMEs to meet all their financial obligations, asset accumulation and number of years in business is the good predictor of financial performance. Nwigweet al. (2012) report that the average share of SME lending is smaller in developing countries (16 per cent of total lending) by comparison with the average share in developed countries (22 per cent of total lending) gives contradicting predictors of SMEs performance.

Banks in developing and developed countries are primarily attracted by the potential profitability of the SME sector and serve SMEs primarily through dedicated SME units (Love and Peria, 2013). Government programmes are considered favourable and prudential regulations are not perceived as burdensome. Scoring models are used by most banks but they are just one of the inputs in loan decision. Banks in developing countries report that macroeconomic instability is the main obstacle to SME lending and also affecting their performance, rather than flaws in the legal and contractual framework. However, the second study by Abdulaziz and Worthington (2013) based on the statistical analysis of the dataset concludes that the differences in SME lending between developing and developed countries are actually explained by differences in the quality of the legal and contractual environment (weaker in developing countries). Overall, their analysis suggests that the enabling environment is more important than firm size or bank ownership in shaping bank financing to SMEs and it may not be a good predictor of SMEs performance in such areas of operation (Ojo, 2012).

A study done by Madole (2013) on the impact of financial institutions on the performance of SMEs in Tanzania shows that with credit obtained from NMB Bank in Morogoro, SMEs have been able to improve businesses in terms of: increased business profit, increased employees, increased sales turnover, increased business diversification, increased business capital and assets as well as reduction of poverty among customers surveyed. Results also show that collateral, age or experience of the SMEs owners, and, size of the firm influence the access of credit. The study concluded most of the small businesses depend on bank loan for business capital growth. Bank loan especially NMB loan plays a very crucial role to promote small business growth, although some of the small businesses fail to repay bank loan due to various reasons such as grace period, moral hazard and high interest rate. In regard to the findings, however, it was recommended that MFIs should increase credit and enhance participation in SMEs financing, in order to sustain the growth and maximal contribution to economic growth and development of the nation (AMFIU, 2010).

Waithanji (2014) studied the effect of microfinance credit on the financial performance of small and medium enterprises in Kiambu County, Kenya. The study was done through the use of survey design. Out of the 2,061 SMEs licensed, the study randomly sampled 60 SMEs. The study found that there is a direct relationship of financial accessibility and financial performance of the companies. The study also concludes that the enterprises benefit from loans from microfinance institutions, the SMEs seek financial assistance from the MFIs due to interest rate, easy loan repayment and amount offered (George, 2014). There is need to provide an enabling environment for SMEs to grow and thrive; therefore there is a need to develop strategies to enhance increased access to microfinance credit by SMEs from commercial banks and microfinance institutions.

2.8 Relationship between Financial Accessibility and Performance of SMEs

Waithanji (2014) studied the relationship between of financial accessibility on the financial performance of small and medium enterprises in Kiambu County, Kenya. The study was done through the use of survey design. Out of the 2,061 SMEs licensed, the study randomly sampled 60 SMSs. The study found that there is a direct relationship of financial accessibility and financial performance of the companies. The study also concludes that the enterprises benefit from loans from microfinance institutions, the SMEs seek financial assistance from the MFIs due to interest rate, easy loan repayment and amount offered (Osoro and Muturi, 2013). There is need to provide an enabling environment for SMEs to grow and thrive, therefore there is a need to develop strategies to enhance increased access to financial accessibility by SMEs from commercial banks and microfinance institutions. In a related view, financial accessibility in Uganda provides assistance to SMEs in the area of accounting, financial management and entrepreneurship that complies with national accounting requirements and/or best practices, this will improve the performance of SMEs (Nkurunziza, 2015). The inaccessibility of credit and capital is a major impediment to the development of SMEs, particularly because it prevents them from acquiring the new technology that would make them more productive and more competitive.

There is a strong relationship between financial accessibility and performance of SMEs (Kasekende and Opondo, 2013). The inaccessibility of credit and capital is a major impediment to the development of SMEs, particularly because it prevents them from acquiring the new technology that would make them more productive and more competitive. Access to finance will provide assistance to SMEs in the area of accounting, financial management and entrepreneurship that complies with national accounting requirements and/or best practices, which will improve the performance of SMEs (Turyahebwa et al., 2013). Entrepreneurs and small business owners often turn to access to finance in order to establish or expand their business ventures. Business enterprises that choose this method of securing funding, which is commonly called debt financing, need to be aware of all components of those loan agreements, including interest.

Many studies (Nakiyingi, 2010; MFPED, 2010; Muktar, 2017) have linked financial accessibility to performance. They assert that the access to finance which is a component of operating expenses, profit motive, and inflation rate in the country significantly affects the performance of small scale enterprises. This is measured in terms of level of output, level of revenue and level of employment depending on how the borrowed money is put to use.

According to Kelley and Nakosteen (2015), financial accessibility is not a problem as long as the borrowed money is invested in ventures with high rate of return. They however found out that for this to be achieved, a big amount of capital should be accessed by the borrowers in order for them to increase their levels of investment so as to enjoy economies of scale. Their finding was confirmed by Koech (2011) who found out that loan performance is influenced by the loan size and loan repayment period. According to him, the bigger the amount of borrowed money with longer repayment, period the better will be the liquidity of the enterprise as well as high levels of profitability that will be achieved after meeting the obligation of loan repayment.

According to MFPED (2010) a high interest rate regime with shorter loan repayment period undermines the financial performance of small scale enterprises through increased probability of default and non-performing assets that affect liquidity. It further threatens the financial long term solvency of private sector businesses and especially of local origin, mainly small scale enterprises. Moreover, as a result of compounding, a continually rising interest rate increases loan repayment obligation over time and constrains small scale enterprise operations. The high cost of credit and the small loans available to small scale enterprises not only affect private sector business through increased costs of operation, but affects production performance and this has negative effect on liquidity and profitability of the enterprises (Ledgerwood et al., 2012).

Financial accessibility is vital to the growth and performance of Small Medium Enterprises. Kasekende and Opondo (2013) noted however that one of the most difficult problems that the small medium enterprises face is obtaining financing. Nakiyingi, (2010) confirms that SMEs often have great difficulty accessing financial services in many emerging markets. Nkurunziza, (2015) further highlighted that the difficulty to raise capital is one of the factors limiting growth of Small and Medium enterprises. The capacity for Small and Medium sized Enterprises (SMEs) to fulfil their potential in an economy depends on the availability of finance. Availability of finance is one of the important instruments that help small medium enterprises increase their income and overcome their liquidity constraints.

In Uganda, ninety per cent of Small and Micro Enterprise collapse in their first year of startup, due to lack of access to credit (Arinaitwe and Mwesigwa, 2015). Arinaitwe and Mwesigwa, (2015) further noted that although MFIs have become popular among the underserved population in Uganda, the reach is still low with only 2 million people accessing finances out of a population of over 35 million people. Despite SME’s importance in Uganda’s economy, many of them do not have sufficient access to credit from formal financial institutions and their major source of finance is the informal sector. Thus, solving the major financial constraint of this important sub-sector of the economy in Uganda led to emergence of several Financial Institutions with the aim of helping thousands of the poor out of poverty as well as providing financial services to Uganda's lowest-income entrepreneurs so that they can create jobs, build assets and improve their standard of living. However, these financial institutions have been biased towards large corporate borrowers, who provide better business plans, have credit ratings, more reliable financial information, better chances of success and higher profitability, (Balunywa, 2012). Generally, there have been minimal efforts by financial institutions in Uganda to facilitate credit to small scale and medium enterprises.

2.9 Knowledge Gap

Several studies have been done in this area. For example, Waithanji (2014) has done research on the effect of financial accessibility on the financial performance of small and medium enterprises in Kiambu County. Waithanji finds that all SMEs borrow investment capital and use it for the purpose they borrowed it. Most of SMEs did not have other source of financing than from micro-finance institutions and they did not have other form of financing before they started receiving financing from microfinance institutions. In addition, the study leaves a gap on contribution of financial accessibility on growth, profitability and sustainability of SMEs. The above study also reveals that inaccessibility of credit is a major impediment to the development of SMEs, particularly because it prevents them from acquiring the new technology that would make them more productive and more competitive. Access to finance will provide assistance to SMEs in the area of accounting, financial management and entrepreneurship that complies with national accounting requirements and/or best practices, this will improve the performance of SMEs. Another related study was done by Eton et al. (2017) on the role of credit financing on performance of SMEs in Lira Municipality and found that the role of financial institutions toward SMEs success is of vital importance. However, the study on financial accessibility and performance of small and medium enterprises in Kabale Municipality had not been undertaken, thus leaving a gap to conduct our study. This study, therefore, examined the effect of financial accessibility on the performance of small and medium enterprises in Kabale Municipality.

CHAPTER THREE
METHODOLOGY

3.1 Introduction

This chapter covers the research design, study population, sample size and selection, sampling techniques, sources of data and data collection instruments. It also includes the validity and reliability of research tools, research procedure, data analysis and ethical consideration.

3.2 Research Design

A research design is an overall plan or strategy for conducting research (Ngabirano, 2012). In order to achieve the objectives of the study, a cross-sectional survey research design was adopted. A cross-sectional survey research design is used when different categories of people are being handled at the same time (Amin, 2005). Therefore, the researcher adopted this research design to enable him collect data from SME owners and selected bank staff. The researcher used both qualitative and quantitative data that helped to generate valid and dependable conclusions and recommendations required for the study. Quantitative and qualitative study approaches were used. Correlation, regression and factor analysis were used to establish the relationship between financial accessibility and performance of SMEs. The researcher used survey and field research to gather quantitative and qualitative data respectively.

3.3 Study population

According to Steinke (2004), population is a well-defined collection of individuals or objects known to have similar characteristics. It is generally referred to a large collection of individuals or objects that is the main focus of a scientific query. A total population of 2510 SMEs was registered in 2019 (UNBS, 2019). The study included a target population of 340 SME owners, 05 managers and 15 loans officers from common Commercial Banks in Kabale Municipality, which was made up of a total target population of 360 SMEs.

3.4 Sampling Method, Procedure and Size

A sample size refers to the number of participants or observations included in a study. This number is usually represented by n. The size of a sample influences two statistical properties; the precision of our estimates and the power of the study to draw conclusions (Amin, 2005).The researcher used stratified sampling to divide the population into strata according to the different business sectors of trade, service and manufacturing. Simple random sampling was used to select respondents from each stratum. The target population was 360 and a sample size of 200 was considered for the study, which comprised key SMEs owners, managers and loan officers. The sample size was determined according to the Krejcie and Morgan (1970) table.

Table 3.4.1: Target Population, Sample Size and Selection

Category	Target Population	Sample size	Sampling technique
SME Owners	340	181	simple random
Managers	05	05	Purposive
Loans officers	15	14	Purposive
Total	**360**	**200**	

Source: Kabale Municipal Business Registers, 2020 (Krejcie and Morgan Table 1970)

3.4.1 Sampling techniques

The researcher used both simple random sampling and purposive sampling techniques. According to Steinke (2004), simple random sampling a techniques where each individual is chosen randomly and entirely by chance, such that each individual or subset has the probability of being chosen at any stage during the sampling process. In this case, SME owners were selected using stratified sampling to give information relating to financial accessibility and performance of their enterprises. Simple random sampling technique was used on the formed strata in order to get rid of bias while selecting the respondents.

Purposive sampling is a non-probability sampling method and it occurs when elements selected for the sample are chosen according to the judgement of the researcher (Steinke, 2004). Researchers often believe that they can obtain a representative sample by using sound judgement, which would result in saving time and money. Purposive sampling allows the researcher to pick subjects that meet a pre-defined selection criterion (Kothari, 2003). In this study, purposive sampling technique was employed to select 10 loans officers from the common commercial banks offering loans to SMEs due to their position in the financial accessibility process.

3.5 Data and information sources

Data and information for this study was gathered from both primary and secondary sources.

3.5.1 Primary data

Primary data means original data that has been collected specifically with the research purpose in mind. It means someone collected the data from first-hand source (Dunckel, 2001). According to Dunckel, people who gather primary data may have knowledge of the study and may be motivated to make the study a success. These people are acting as a witness so primary data is only considered as reliable as the people who gathered it. Primary data or information was gathered from SME owners and loans officers because they had authentic information as they were involved directly in accessing finance from financial institutions and performance of business enterprises.

3.5.2 Secondary data

Secondary data refers to data that is collected by someone other than the user (Bishop, 2007). Secondary data or information was obtained through an extensive literature review on financial accessibility and performance of SMEs gathered from reports, books, publications or other research work.

3.6 Data collection methods and instruments

Data for this study was collected using the following instruments.

3.6.1 Interview method

An interview is a face-to-face purposeful conversation between an interviewer and interviewee (respondent) (Kothari, 2004). The researcher collected data using interview in order to take advantage of face-to-face interaction. The researcher used an **interview guide** as one of the data collection instruments. According to Kothari, interview guides enable the researcher to explore the respondents' feelings, views, perceptions and experiences about financial accessibility and its influence on performance of SMEs. This method was mainly applied to managers and loans officers from Kabale Municipality for the detailed information about the study. The interview guide enabled the researcher to obtain historical information and also gained control over the line of questioning.

3.6.2 Questionnaire method

The questionnaire method consists of a series of questions and other prompts for the purpose of gathering information from respondents (Kothari, 2004). Questions were constructed by the researcher. Relevant and straight questionnaire were employed for the ease of respondents' understanding, interpretation and quick feedback. The research instrument in this method was a **self-administered structured questionnaire** consisting of both open-ended and close-ended questions in line with research questions and study objectives. The questionnaire was administered to SME owners and loans officers. This method was used because it was the most effective method for collecting quantitative data from large samples and respondents provided their views in details through writing which enabled the researcher to obtain quantified information (Kothari, 2004).

3.6.3 Documentary review

The main source of secondary data was reports, journals and other literature to corroborate the primary source. The researcher used a documentary checklist to obtain information specifically relating to financial accessibility and SME performance.

3.7 Validity and reliability of the tools

3.7.1 Validity

Validity is the degree to which a test measures what it is supposed to measure (Amin, 2005). The researcher ensured validity of the instruments for efficiency and effectiveness of the tools to arrive at the dependable findings, conclusions and recommendations. The instruments were designed and discussed with experts in the field to ascertain whether they were comprehensive, clear, simple and relevant to the study objectives. A Content Validity Test was conducted using the CVI whose formula was:

$$\text{CVI} = \frac{\text{Number of relevant items}}{\text{Total number of items}} \times 100 = \frac{26}{36} \times 100 = 72.2$$

Since the CVI value was above 70%, the instruments were valid (Amin, 2005). However, the instruments were corrected to remove unworthy items, improve on some and qualify others.

3.7.2 Reliability

Reliability of an instrument is the degree to which the instrument consistently measures whatever is to measure (Amin, 2005). Cronbach alpha (Cronbach, 1951) reliability coefficient of 0.7 points and above was used to measure the internal consistency or average correlation of items in a survey instrument to gauge its reliability. The higher the score, the more reliable the generated scale was. For instance, Nunnally (1978) argues that a 0.7 alpha coefficient is an acceptable reliability coefficient. In this study, the researcher ensured reliability by applying the same instruments to the related respondents two times to see whether they yielded the same responses. The researcher conducted a pilot study on 20 SMEs from any division in the municipality. The idea was to check the consistency of the responses among various study participants. Then Cronbach's Alpha Coefficient (1951) was computed and the results obtained.

Table 3.7.1: Reliability Statistics

Variable List	Cronbach's Alpha	N of Items
Financial accessibility	.713	7
Performance of SMEs	.701	7

Contribution	.767	7
Overall	**0.727**	**21**

The reliability test is above 0.7 and above, the instrument will be reliable.

3.8 Measurement of study variables

Financial accessibility was measured in terms of credit terms, credit size and frequency using measures developed by Agarwal (2006). Performance of SMEs was measured by profitability, liquidity and business growth as per measures developed by Kelley and Nakosteen (2005). The researcher used a mixture approach while designing the questionnaire where Likert scale with numbers 1-5 represented levels of agreement from strongly disagree to strongly agree and open-ended questions were designed to give the respondent room for explanation under each objective.

3.9 Data Analysis

Data analysis deals with the organization, interpretation and presentation of data collected. Data collected using interview guides and questionnaire was interpreted, edited and presented quantitatively and qualitatively. The data collected was computerized, sorted, edited, classified and coded. The resultant data was entered using statistical package for social scientists (SPSS Version 20) for analysis. The generated frequency tables were for demographic and descriptive data. The relationship between the study variables was established using correlation. Regression analysis was used to determine the contribution of financial accessibility on performance of SMEs.

3.10 Research procedure

After approval of the proposal, the researcher got an introductory letter from the Directorate of Post Graduate Studies, Kabale University, which was presented to the relevant authorities in Kabale Municipality to seek permission to conduct research in the given study areas. Upon acceptance by the municipal authorities, data collection commenced

3.11 Ethical Issues

The researcher sought for consent from participants to take part in the study. Confidentiality of the respondents was highly respected and the purpose of this study was explained to the targeted respondents both by a written introduction and verbally.

3.12 Challenges of the study

- The researcher had insufficient funds because the required resources for the study were so financially demanding. However, the researcher mobilized funds from well-wishers and his personal savings .The researcher also worked according to the stated budget and time frame to avoid related financial challenges.
- The respondents withheld some information or dodged answering some questions that resulted in the researcher missing very relevant information. However, the researcher used all the means available to convince respondents towards providing information in its fullness. The researcher assured respondents about the purpose and relevance of the study and their inputs would be kept confidential in order to make them comfortable enough to provide information for the study.
- The researcher had limited time in the field due to other academic demands. However, the researcher involved research assistants to collect and input the data.

CHAPTER FOUR
DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter presents data analysis, interpretation, and discussion of the findings. The researcher first presents the response rate, and the background characteristics before analysing the research problem. The research problem was analysed based on research objectives. These were:

i. To assess the determinants of financial accessibility by SMEs in Kabale Municipality;
ii. To establish the performance challenges affecting the growth of SMEs in Kabale Municipality;
iii. To examine the contributions of financial accessibility in supporting performance of SME in Kabale Municipality.

4.2 Response rate

The study targeted a sample size of 200 but realized a response rate of 79.0% (158 out of 200). This was elaborated from the formula:

$$Response\ rate = \frac{Number\ of\ questionnaires\ returned}{Number\ of\ questionnaires\ distributed} \times 100$$

$$Response\ rate = \frac{158}{200} \times 100 = 79.0$$

The response rate was high enough to provide a foundational base for generalizing results and conclusion.

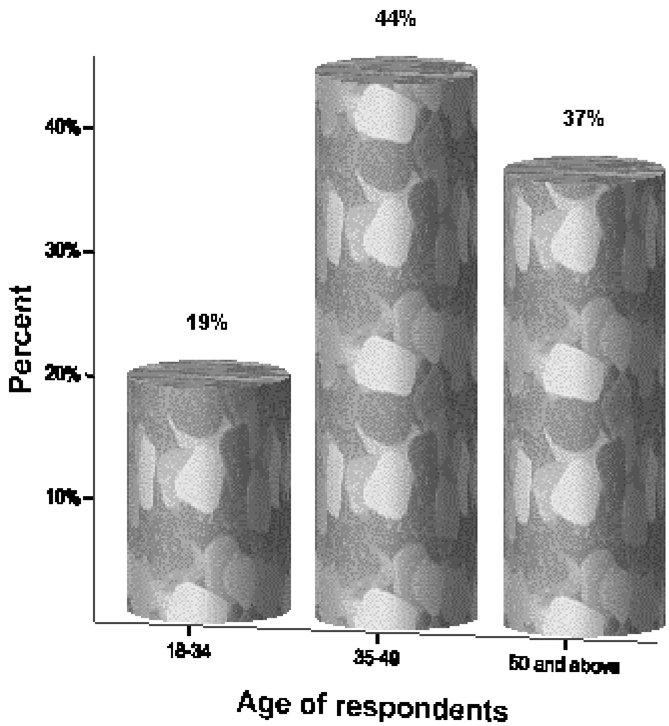
4.3 Background data

The researcher investigated the following background characteristics, that is, gender, age, highest level of education, nature of business, category of respondents and the business life.

4.3.1 Age of SME owners

The researcher investigated three broad age brackets of respondents: 18-34, 35-49, and 50 and above. This details appear in the figure below.

Figure 4.3.1: Age of SMEs owners

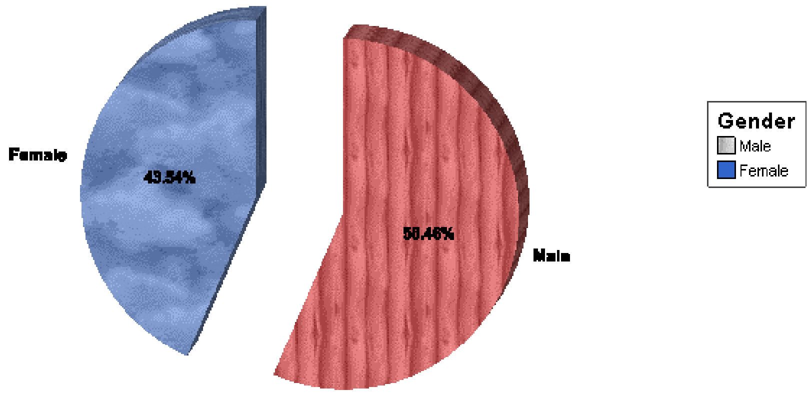


The findings indicate that most of the participants (44%) belonged to the 35-49 age bracket, 37% belonged to 50 and above age bracket, while least participation was observed among those of 18-34 age bracket. The statistics suggests that most of the participants were adults. In all business settings, the need for maturity is important. Success in business requires maturity in both age and reasoning, though it is not always the case.

4.3.2 Gender of respondents

The researcher was interested in two gender categories that is male and female. The details appear in the figure below.

Figure 4.3.2: Gender of respondents

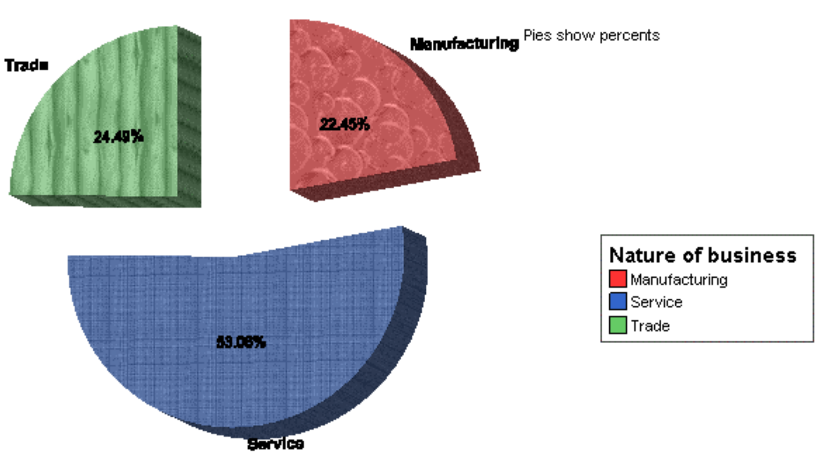


The study shows that most of the participants were male (56.5%) while females constituted (43.5%). Much as men seem to have dominated the study, the statistics do not indicate a marked significant difference in gender participation. This is a unique finding that suggests an increasing number of women that participate in small scale businesses. Certainly, the increasing familial and domestic responsibilities dictate that both men and women engage is some income generating projects, of which business is one.

4.3.3 Nature of business

The researcher investigated three purposively selected business categories, that is, trade, manufacturing and services. These business categories were selected because they portrayed high levels of failure in Kabale municipality. The details appear in the figure below.

Figure 4.3.3: Nature of business

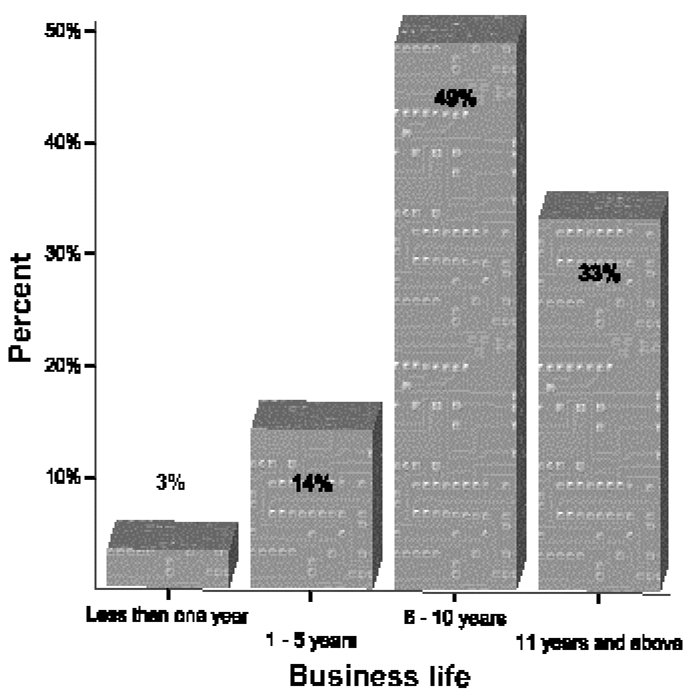


The study established that 53.1% were service providers, 24.4% were traders while 22.5% were manufacturers. This implies that the study was dominated by service providers. There are many service providers in Kabale, ranging from schools, restaurants, hotels, etc. However, there was no significant difference in participation between traders and manufacturers in Kabale municipality.

4.3.4 Business life

The researcher examined the length of existence in years of the businesses under investigation. the length of existence was categorized into four as shown in the figure below.

Figure 4.3.4: Business life



Most of the businesses indicated to have existed for more than 10 years but not exceeding 15 years (49%). These were followed by businesses that had existed for over 15 years (33%) whereas only 3% of the businesses indicated to have existed for less than one year. The findings characterize service businesses, which emerge on a daily basis compared to manufacturing businesses.

It should be noted that the item on category of respondents was eliminated from the analysis. The researcher realized that the categorization had been set purposively. Therefore, there was no need to investigate their participation. Additionally, SME owners were more than the loan officers, which would indicate higher participation of the former than the latter.

4.4 Empirical results

The researcher analysed the research problem based on the research objectives. This study was guided by the following objectives: To assess the determinants of financial accessibility by SMEs in Kabale Municipality; to establish the performance challenges affecting the growth of SMEs in Kabale Municipality; and to examine the contributions of financial accessibility in supporting performance of SME in Kabale Municipality. The researcher used the analytical technique that would rightly address the research objective.

4.4.1 To assess the determinants of financial accessibility by SMEs in Kabale Municipality

To assess the determinants of financial accessibility by SMEs in Kabale municipality, the researcher used descriptive statistical measures of mean and standard deviation. Mean was used to show the key determinants of financial accessibility. The highest mean score indicated the '**most determinant'** while the least mean score indicated the '**least determinant'** of financial accessibility. Standard deviation was used to indicate how participants deviated in their opinions on the determinants of financial accessibility. As a guide to interpretation, low standard deviations indicate '**high consistence**' while high standard deviations indicate '**low consistence**' of opinion on the determinants of financial accessibility.

Table 4.4.1: Determinants of financial accessibility

Variable List	Mean	Std.
1. The level of collateral by banks determines financial accessibility by SME owners	4.395	0.657

2.	Inflexible and non-negotiable repayment schedules of Micro finance institutions also affect financial accessibility by SMEs	3.850	1.036
3.	Length of SMEs survival and bank's cooperation is a key determinant of credit availability for SMEs	3.755	1.291
4.	This firm access finance from financial institutions	3.735	1.229
5.	Financial accessibility is determined by frequency of access by SMEs	3.571	1.395
6.	The rate of interest charged by financial institutions determines the accessibility of loans by SMEs	3.537	1.326
7.	Credit terms in financial institutions determine the loans obtained by SME owners	2.707	1.635

Source: Field data, 2020

The key determinant of financial accessibility was found to be the level of collateral security (mean = 4.395; std. = .657). This was highly indicated by the level of collateral security needed by banks limits SME owners from accessing financial credit. In real practice, all lending businesses require some form of collateral to guarantee security of the loan in case of failure or default. Second to collateral security was the inflexible and non-negotiable repayment schedules by microfinance institutions (mean = 3.850; std. = 1.036). Participants asserted that microfinance institutions set tough repayment schedules that hinder the majority of SME owners from using their credit. The researcher observes that while banks might limit borrowers by their demand for collateral securities, microfinance institutions limit borrowers by their tight repayment schedules. On the lowest side, participants do not consider credit terms (mean = 2.707; std. = 1.635) as a hindrance to obtaining loans. The researcher observed that credit terms in financial institutions determine the loans obtained by SME owners. Credit terms are no longer a hindrance to borrowing because they are almost the same in all banks. For example, no bank grants loans at less than 23% interest rate. Standard deviations confirm the reliability of the mean scores. The low standard deviation indicate consistent opinions regarding collateral security (std. = .657) and inconsistent opinions regarding credit terms (std. = 1.635).

4.4.2 To establish the challenges affecting performance of SMEs in Kabale Municipality

To establish the challenges affecting performance of SMEs in Kabale municipality, the researcher used descriptive statistical measures of mean and standard deviation. Mean was used to show the key challenges of performance. The highest mean score indicated the '**most challenging factor'** while the least mean score indicated the '**least challenging factor'** of performance. Standard deviation was used to indicate how participants deviated in their opinions on the challenges of performance. As a guide to interpretation, low standard deviations indicate '**high consistence**' while high standard deviations indicate '**low consistence**' of opinion on the challenges of performance.

Table 4.4.2: Challenges of performance of SMEs

Variable List	Mean	Std.
1. There is a challenge of low investment potential among SME owners in Kabale Municipality which limits business performance	4.211	0.830
2. Lack of assets and having weak financial foundations by most SMEs impede their growth	3.769	0.915
3. SMEs have limited access to capital markets, locally and internationally	3.524	1.213
4. Financial institutions are reluctant to grant loans to SMEs which reduces their performance	2.993	1.382
5. SMEs in this municipality face a lot of challenges in their performance	2.980	1.377
6. Limited access to markets and market information is another challenge affecting performance of SMEs in Kabale Municipality	2.810	1.207
7. SMEs in this municipality face high taxation rates which hinder their performance	2.129	1.284

Source: Field data, 2020

The major challenging factor to performance of SMEs is the low investment potential (mean = 4.211; std. = .830). This was highly indicated by the low investment potential among SME owners, which limit business performance. The statistics suggest that SMEs would have loved to expand their investments but are always limited in their investment drives. Second to low investment potential is the lack of assets (mean = 3.769; std. = .915). The statistics indicate that lack of assets and weak financial foundations impede their performance. The statistics suggest that SMEs lack assets to widen their capital base and to pledge as collateral security to financial service providers. Much as the researcher used high taxes as a challenging factor to business performance among SMEs, a good number of participants disagree with the claim (mean = 2.129; std. = 1.284). The statistics that taxes paid to the municipality do not hinder their performance.

A comparison of the standard deviations confirms that the mean as a measure of the challenges affecting performance of SMEs in Kabale municipality was reliable, especially in indicating low-investment potential and lack of assets. However, the mean was not very reliable in indicating high taxes as an impediment to performance. Participants were more inconsistent in their opinions on the reluctance of financial institutions to grant them loans (std. = 1.382) than high taxes (std. = 1.284) as impediments to their performance.

4.4.3 To examine the contributions of financial accessibility in supporting performance of SME growth in Kabale Municipality

To examine the contribution of financial accessibility in supporting performance of SMES, the researcher adopted regression analysis. Regression is a mathematical function that predicts the effect of the independent variable on the dependent variable. In this study, the researcher took financial accessibility as the independent variable and performance of SMEs as the dependent variable. The study used regression coefficients to understand the change in the performance of SMEs for a very unit-change in financial accessibility, and R-Square to determine the portion of performance of SMEs explained by financial accessibility. The following table shows the summary of the regression model.

Table 4.4.3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.418(a)	.174	.169	.75501

a Predictors: (Constant), Financial Accessibility

The relationship between financial accessibility and performance of SMEs ($r = .418$; p-value $< .05$) appears to be moderate. This suggests that a change in programmes aimed at making financial services accessible are associated with an average change in the performance of SMEs. In practice, financial accessibility programmes are likely to change performance levels in SMEs on average. The study indicates a p-value which is less than 0.05. This suggests that the average relationship between financial accessibility and performance of SMEs is likely to be found in over 95% of the study sample. Therefore, the statistic is relevant and significant.

The researcher used R-Square to measure the amount of contribution which financial accessibility is likely to have on performance of SMEs. From (R-Square = .174), financial accessibility contributes only 17.4% of the level of performance of SMEs in Kabale municipality. This statistic suggests that financial accessibility is not a good predictor of variations in performance of SMEs in Kabale municipality. There appears to be another set of factors that potentially explain the remaining 82.6% of performance of SMEs such as high interest rate, low business profile, the low size of the business and competition from foreign markets. The researcher used regression coefficients to understand the change in performance of SMEs for every unit-change in performance of SMEs.

Table 4.4.4: Coefficients

Model		**Unstandardized Coefficients**		**Standardized Coefficients**		
		B	**Std. Error**	**Beta**	**t**	**Sig.**
1	(Constant)	1.330	.313		4.255	.000
	Financial Accessibility	.493	.089	.418	5.534	.000

a Dependent Variable: SMEs Performance

Much as financial accessibility contributes only 17.4% of the level of performance of SMEs, a unit-change in financial accessibility (β =.493; p-value =.000) is likely to contribute about 49.3% effect in performance of SMEs. This might be due to the fact that businesses need finance as their lifeblood. The significant level further suggests that changes in financial accessibility have a linear effect on performance of SMEs.

4.5 Discussion

In this section, the researcher brings out a detailed discussion of the findings, structured according to research objectives. The objectives of the study were: To assess the determinants of financial accessibility by SMEs in Kabale Municipality; to establish the performance challenges affecting the growth of SMEs in Kabale Municipality; and to examine the contributions of financial accessibility in supporting performance of SME in Kabale Municipality. The researcher made attempts to compare the findings of the current study with extant research.

4.5.1 To assess the determinants of financial accessibility by SMEs in Kabale Municipality

The study established the level of collateral security as the key determinant of financial accessibility. The findings of the current study are consistent with Abdulaziz and Worthington (2013) who established that failure of SMEs to meet bank requirements leaves SMEs open to exploitation by unsound and unreliable sources of credit. The alternative sources are not merely unreliable but cannot extend financial assistance adequate to meet business owners' problems. The stringent terms that surround financial credit stifle business growth. Rather than improving their operational performance, SMEs continuously lose their property to money lenders for failure to meet bank requirements. Additionally, most SMEs have failure to harness the available credit in banks for limited collateral. The findings also agree with Eton, Mwosi, Mutesigensi, and Ebong (2018) who established that the inadequacy of collateral limit access to financial services. Government efforts in saving SME owners from the cries of collateral have done little to help SME owners in their struggle to access financial credit. In a related study, Madole (2013) established that collateral influences access of credit. These two studies have much in common since they were conducted in developing countries. However, they are likely to differ in business contexts, which does not necessarily imply conclusiveness.

The findings, however, seem to disagree with Rahman, Belas, Kliestik, and Tyll (2017) who note that collateral tends to be a problem to borrowers depending on the maturity of the loans. They content that loans with long-term maturity require higher collateral than those with short-term maturity. The findings further disagree with Duarte, Gama, and Esperanca (2016) who examined the impact of reformed credit environment on collateral requirements in Eastern Europe and Central Asia. The authors note that borrowers fail to share private information with lenders, which might increase information asymmetry on the need to receive loans. So the drawback in this case stems from borrowers rather than lenders. The study established that SME owners do not consider credit terms as a determinant of financial access in Kabale municipality as they depend on borrowers trust and history of borrowing. The findings agree with Odongo (2014) who established that lending terms have a low influence in financial performance than other factors. The authors present similar results with the current study on the association between financial accessibility and performance of SMEs. The current study, however, does not indicate whether SME owners are not bothered about credit terms offered by banks or microfinance institutions because they are likely to be different. Importantly, there is need to note that the barriers to financial access are linked to firms' specific effects and owners' specific effects. Thus policy measures to improve financial accessibility environment must be directed to firms, owners, and the lenders.

4.5.2 To establish the performance challenges affecting the growth of SMEs in Kabale Municipality

The study established low investment potential, and low asset base as the key challenge affecting performance of SMEs in Kabale municipality. The findings agree with Harash et al. (2014) who observed that inadequate capital hinders SMEs from expanding their operations, forcing them to rely more on bank lending than their own internally generated capital resources. The fact that most SMEs depend on external sources of financing limits their level of investment. In addition to access to financial credit, investment among SMEs tends to be limited by the age and size of the business (Bajcinca, 2015).

Some SMEs ignore the entire process of investment decision while some make just cursory decisions without a thorough analysis and evaluation of all factors that predict performance of business. For example, one key informant remarked: "…*many business experts have offered that credit from the bank is very crucial for businesses to take-off but ignore the need to coordinate other factors of production such as investment*…" In practical terms, SMEs that ignore the full coordination of investment processes are likely to encounter challenges in their performance.

The findings, however, disagree with Piatkowski (2020) who observed that undertaking investment activities contributes to enterprise performance, regardless of the source of financing. The author contradicts precious studies that link low investment potential to inability to acquire financial credit. Firms can grow and blossom with any type of financing. In line with previous studies, one key informant observes: "…*lack of finance, lack of comprehensive databases, low level of R&D expenditures, and insufficient use of information technology…"* as serious limitations to performance of SMEs. The researcher observes the need to comprehensively consider the factors that limit performance of SMEs beyond the low investment potential.

4.5.3 To examine the contributions of financial accessibility in supporting performance of SME in Kabale Municipality

The study found significant contribution of financial accessibility on performance of SMEs in Kabale municipality. However, the proportion of performance accountable to financial accessibility was that low. The findings agree with Odongo (2014) who established that lending terms have low influence on performance of SMEs in Soroti district, Uganda. The author revealed that SMEs in Soroti were distressed due to insufficient liquidity, and high risk insolvency than lending terms. A related study by Waithanji (2014) supports the current findings by showing that financial accessibility directly relates with financial performance of SMEs but also adds that SMEs are always constrained by unfair credit policies in accessing capital. A related study in Zambia by Sibanda, Hove Sibanda and Shava (2018) established a positive and significant impact of financial access on performance of SMEs. The authors further challenged the notion that access to finance has a negative impact on performance of SMEs. Though the authors focused on export businesses, they contribute to the impact of financial accessibility to performance of SMEs in Kabale municipality.

The findings of the current study appear to disagree with Nguyen (2014) who established that access to credit does not influence SMEs' growth. Rather than SMEs sticking to credit as a limitation to their performance and consequently growth, they ought to focus on building sound customer relationships and owner proactivity. Madole (2013) in Tanzania found that credit obtained from banks improves business profit, sales turnover, business diversification, business capital and assets. However, the author does not provide a statistical influence of access to credit on business performance. The results in Kabale municipality disagree with Jaradat, Taha, Mat

Zin, and Zakaria (2018) who found a negative influence of financial accessibility on organizational performance. While the authors based their findings on Jordanian SMEs, the findings offer relevant contributions to the challenges affecting SMEs in Uganda.

Supporting the relationship financial accessibility and performance of SMEs, one key informant reiterates: "…*many SMEs find it very difficult to raise funds for outright purchase of certain equipment and machinery. If we do not go for credit in terms of equipment leasing, we cannot remain in business. ...much as equipment lending is flexible for businesses with smaller capital, aggregate cost involved is higher than the cost of outright purchase*…" The researcher observes that financial accessibility is a challenging factor to SMEs in manufacturing businesses.

CHAPTER FIVE
SUMMARY AND CONCLUSION

5.1 Introduction

This chapter presents the summary of findings, conclusion, recommendations and areas for suggested future research. Summary of findings and conclusion were presented according to research objectives while recommendations were based on research findings. The objectives of the study were: To assess the determinants of financial accessibility by SMEs in Kabale Municipality; to establish the performance challenges affecting the growth of SMEs in Kabale Municipality; and to examine the contributions of financial accessibility in supporting performance of SME in Kabale Municipality.

5.2 Summary of findings

The key determinant of financial accessibility to SME owners in Kabale municipality was the level of collateral security required by banks (mean = 4.395; std. = .657), and confirmed by 96.0% of the participants. The major challenge affecting performance of SMEs in Kabale municipality was the low investment potential (mean = 4.211; std. = .830), and confirmed by 89.1% of the participants. The relationship between financial accessibility and performance of SMEs ($r = .418$; p-value $< .05$) was moderate while financial accessibility was found to contribute only 17.4% of the level of performance of SMEs in Kabale municipality. This left a gap of 82.6% that could be met by other factors that were external to the study.

5.3 Conclusion

The major objective of the study was to establish the relationship between financial accessibility and performance of SMEs in Kabale Municipality. There is a positive and significant moderate relationship between financial accessibility and performance of SMEs. SMEs are likely to increase their performance if their chances of accessing credit increase. Financial sources with long-term maturation are more likely to affect performance of SMEs than those with short-term maturation.

The first objective of the study sought to assess the determinants of financial accessibility by SMEs in Kabale Municipality. The key determinant of financial accessibility remains collateral security. Collateral security is more worrisome to SMEs in their early stages of growth than those that have existed for some time. While most of the SME owners indicated to have stayed in business for about 10 years and above, collateral security remains a blockade to their financing. However, as noted in the study, these businesses have challenges with collateral security, which most of them do not have. Consequently, because of this shortage, SMEs find themselves alternative sources of financing, including microfinance institutions, which are unreliable with unbearable terms compared to banks.

The second objective sought to establish the performance challenges affecting the growth of SMEs in Kabale Municipality. The low investment potential is the key challenge affecting performance of SMEs in Kabale municipality. Consequently, most of the SMEs find it difficult to expand their operations beyond a certain level. Most of the SMEs seem to ignore the essential components involved in the investment decision. While the SMEs investigated associate low investment potential with lack of financial accessibility, they disagree with a most recent study by Piatkowski (2020) who confirms that SMEs can blossom regardless of the source of financing. Since most of the SMEs investigated have been in operation for over 10 years and continue to indicate low investment potential, this suggests a weakness in their investment decisions.

The third objective of the study sought to examine the contributions of financial accessibility in supporting performance of SME in Kabale Municipality. Financial accessibility contributes a low effect on performance of SMEs in Kabale municipality. The low effect, however, suggests an array of other factors that are likely to account for performance of SMEs in Kabale municipality. SMEs, therefore, should not tie themselves around financial accessibility as it explains a small portion of the variations in performance of SMEs. However, low contribution of financial accessibility should be contextualized because there are many studies that have established significant contributions of financial accessibility to performance of SMEs.

This study has contributed to the existing body of knowledge on financial accessibility and performance of SMEs. The study has collateral security as a key determinant of financial accessibility. The study has shown low investment potential as a key challenging factor to performance of SMEs. The study has shown a significant effect of financial accessibility on performance of SMEs. The study has offered an extension of credit access theory and financial intermediation theory and understanding of financial accessibility among SMEs.

5.4 Recommendations

The study established that SMEs have low investment potential even when they have been in operation for a number of years. Business owners should venture into investment decision making to elevate their investment potentials.

The study established collateral security as key among the determinants of financial accessibility. Financial institutions, especially banks must come to the aid of SMEs by reducing the collateral requirements, which remain high to most of them. Bank of Uganda should come up with policies that flexibly enable SMEs to access financial assistance.

The study established a low contribution of financial accessibility on the performance of SMEs. SMEs should seek the help of business experts and analysts who should help them make proper forecasts of their businesses beyond financial accessibility.

5.5 Areas for future research

The study established that there are other factors that account for the level of performance of SMEs. There should be a study on the factors affecting performance of SMEs in Uganda.

The study established low investment potential as key among the challenges of performance of SMEs. There should be a study on the relationship between investment decision and performance of SMEs in Uganda.

The study established collateral as key among the determinants of financial accessibility among SMEs. There should be a study on the effect of collateral security requirements on financial accessibility in Uganda.

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Appendix A: Questionnaire for the SME Owners and Managers

Topic: Financial Accessibility and performance of SMEs inKabale Municipality

Dear Respondent,

Thank you for volunteering to complete this questionnaire. Your responses are important and your thoughtful considerations are highly appreciated.

I am a postgraduate student of Kabale University conducting a research on "Financial Accessibility and Performance of Small and Medium sized Enterprises (SMEs) in Kabale Municipality". This research is a pre-requisite for the award of the degree of Masters of Business Administration. Your responses will contribute greatly to achieving the research aim and objectives of this study which will be of benefit to SMEs. All responses received will be treated with utmost confidentiality, and will only be for the purposes of this research work. Kindly answer these questions as objectively as possible so that the results of the data analysis are fairly accurate.

Thank you very much for your cooperation

Section A: General information about respondent

1. Gender

Male ☐ Female ☐

2. Age of the respondent

18-27 ☐ 28-37 ☐ 38-47 ☐

48-57 ☐ 58+ ☐

3. Level of education attained

PLE ☐ O-Level ☐ A-Level ☐

Diploma ☐ Degree ☐ Other (Specify) ☐

3. For how long have you been in existence?

Less than a year ☐ 1- 5 years ☐

6-10 years ☐ 11 years and above ☐

4. What kind of business is the engaged in?

Manufacturing ☐ Service ☐ Trade ☐

Other (specify) …………………………………..

5.Category

SME owner Loans Officer ☐

SECTION B

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

Table 1: Levels of agreement

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

Theme One: Determinants of Financial Accessibility by SMEs

SN	Statements	1	2	3	4	5
1	This firm access finance from financial institutions					
2	Credit terms in financial institutions determine the loans obtained by SME owners					
3	Financial accessibility is determined by frequency of access by SMEs					
4	The rate of interest charged by financial institutions determines the accessibility of loans by SMEs					
5	Length of SMEs survival and bank's cooperation is a key determinant of credit availability for SMEs					
6	The level of collateral by banks determines financial accessibility by SME owners					
7	Inflexible and non-negotiable repayment schedules of Micro finance institutions also affect financial accessibility by SMEs					

8. Mention other determinants of financial accessibility by SMEs you know in the spaces provided.

i. …………………………………………………………………………………
ii. …………………………………………………………………………………
iii. …………………………………………………………………………………
iv. ……………………………………………………………………………………

Theme Two: Performance challenges of SMEs

SN	Statements	1	2	3	4	5
1	SMEs in this municipality face a lot of challenges in their growth					
2	Lack of assets and having weak financial foundations by most SMEs impede their growth					
3	SMEs in this municipality face high taxation rates which hinder their growth					
4	SMEs have limited access to capital markets, locally and internationally					
5	There is a challenge of low investment potential among SME owners in Kabale Municipality which limits business growth					
6	Limited access to markets and market information is another challenge affecting growth of SMEs in Kabale Municipality					
7	Financial institutions are reluctant to grant loans to SMEs which reduces their growth rate					

8. Mention other challenges affecting the growth of SMEs in Kabale Municipality you know

i. …………………………………………………………………………………..
ii. …………………………………………………………………………………..
iii. ………………………………………………………………………………….
iv. ………………………………………………………………………………….

Theme Three: Contributions of Financial Institutions in supporting SME growth

SN	Statements	1	2	3	4	5
1	Financial accessibility positively contributes to the growth of SMEs					
2	In this municipality, favourable credit terms by banks leads to increased SME profitability					
3	Small credits obtained from banks at a favorable rate of interest lead to SME liquidity thus improving on business growth					
4	A favourable frequency of credit repayment is an important aspect in attaining SME growth in this municipality					
5	Financial accessibility by MFIs have had a positive effect on the growth					

	of SMEs					
6	A favourable loan period and size are good predictors of SMEs liquidity					
7	Credit policies that are favorable ease financial accessibility by SMEs hence leading to liquidity and profitability					

8. Mention other contributions of financial institutions in supporting SME growth in Kabale Municipality

i. ……………………………………………………………………………………......

ii. ……………………………………………………………………………………..

iii. ……………………………………………………………………………………..

iv. ……………………………………………………………………………………

Appendix B: Interview Guide for Loan Officers and Bank Staff

1. Do you access finance from financial institutions for business growth?
2. Is it always easy for your business to access credit from banks? If no, why?
3. Financial accessibility helps in growth of SMEs in this municipality. Is it true?
4. Is it true that this financial institution allow small and medium enterprises to access credit for their growth?
5. Do you think rate of interest charged by this financial institution determines the accessibility of loans by SMEs?
6. What are the major determinants of financial accessibility by SME owners?
7. Do you agree that limited access to markets and market information is a major challenge affecting growth of SMEs in Kabale Municipality?
8. Loans officers face challenges when they are following up loan repayment by SMEs. Do you agree?
9. What other challenges affect growth of SMEs in Kabale Municipality?
10. What has financial accessibility positively contributed to the growth of SMEs?
11. What are thekey contributions of financial institutions in supporting your SME growth?
12. Do you think your institution contribute much towards growth of SMEs in Kabale Municipality?
13. This SME has achieved profitability simply because of the ease in financial accessibility by owners. Do you agree?
14. This bank has enabled majority of SMEs to continue in operations through offering credit at favourable credit terms. Is it true?

Thank you for your time and cooperation

Appendix C: Documentary Checklist

1. SME performance reports
2. Receipt books
3. Loan accessibility files
4. Revenue reports
5. Business directories
6. Journals
7. Abstracts

Appendix D: Sampling Table

Table for determining sample size from a given population by Krejcie& Morgan (1970)

Table for determining sample size from a given population					
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	200	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

***S* is sample size**