DECLARATION

The material in this report has never been submitted to any university or institution of higher learning for academic qualifications. This report is a report of my own independent research effort and investigations. Where it is indebted to the work of others, the acknowledgement has made.

Signature:…………………………….
Date:……………………………..

Mwangi Patrick Wangu  07/k/3330/EXT
This work has been supervised and is now ready to be submitted to the Makerere University with the approval of the supervisor.

Signature:……………………… Date:…………………………

MR. Ebiru David

(Supervisor)
DEDICATION
To my mother, Teresa Wangu, my aunt Irene Mwangi, Roseanne Mwangi, my brother John Kungu and sister Eva Waithera and also those who have made an impact in my life to make it what I am today
ACKNOWLEDGEMENT

I would like to thank the almighty God for the gift of life and guiding me throughout my education and this research for his mercy was always with me.

My heartfelt gratitude goes to my family for their tireless effort, financial support, parental love, and guidance and for believing in me all throughout my education.

Special thanks go to my supervisor Mr. Ebiru David for guiding me throughout the research. I am proud to have been under your tutorship. I also thank all my lecturers who have enabled me acquire immeasurable knowledge.

Lastly I thank all my friends Mike, Maryann, Peris as well as the staff of the several small businesses who have made it possible for me to produce this piece of work through their contribution in various ways. God bless you all.
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ABSTRACT
The study was carried out to determine the effect of access to finance on the performance of small and medium enterprises in Uganda. In particular, the study sought to explore the experiences of small and medium enterprises borrowers in access financial services. The main objectives of this study included:

- Establishing the source of finance for SMEs
- Establishing the factors that influence the performance of SMEs
- Establishing the relationship between access to finance and performance of SMEs.

The researcher used both descriptive and analytical research designs. The research designs were appropriate because data was easily analyzed using frequency counts and percentages derived from the responses obtained in the questionnaires.

From the study, it is clear that there is great demand for financial services by SMEs. On the other hand, it is also evident that the supply for financial services is rampant from both formal and informal financial institutions. Even with all this demand and supply, SMEs continue to face myriad of challenges in trying to access financial assistance from these financial institutions. Collateral requirements has been cited as a major cause of these financing problems coupled with misuse of funds meant to assist SMEs grow into sustainable ventures. Lack of knowhow by small business owners about financing policies of these institutions have made SMEs incur losses in the repayment process since they end up making less than they borrowed hence some of them are forced to close down. In case they continue operating, they are incapable of acquiring a subsequent loan. From the study undertaken, the researcher found out there is a weak relationship between access to finance and performance of SMEs having a correlation of 0.386

Based on the results, the study recommends that there is need for commercial banks to promote transparency by regularly publishing bank charges and interest rates in the print media, as is done in Kenya. This is likely to increase competition and thus ultimate reduction in interest rates. Serious awareness programs have also been advocated to spread the knowhow on the policies of fund application. Introduction of small loaning programs for SMEs has also been advocated.
CHAPTER ONE

1.0 Introduction
In many emerging markets, the Small and Medium Enterprises (SME) sector is one of the driving forces for economic growth and job creation, and this holds particularly true for many countries in Africa where SMEs and the informal sector represent over 90% of the business, contribute over 50% of GDP and account for about 63% of employment in low income countries (Berger, A.; G. Udell (2005). "A More Complete Conceptual Framework for SME Finance").

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

Owing to the high risk profile, SMEs remain an unattractive investment for mainstream investors. Of particular concern to the investors are the country, currency and credit risk characteristics of the country in which the SMEs operate, in this case Uganda.

1.1 Background of the study
Finance 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. Access to finance 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 (UNCTAD 2002) or it can be defined as an absence of price and non price barriers in the use of financial services (world bank 2008). 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 (Meyanathan and Munter 1994; McCormick and Atieno 2002; Okech, Mitullah and Atieno 2002).
**A Small Enterprise** these businesses operate from fixed premises that are of a permanent nature e.g. shops. They employ family labor (including extended family) but the total number of people employed may not exceed 20 people. They require little capital to be started. Their periodical sales are relatively higher than those of micro businesses. They may use some basic and some technology in their production systems. They are generally easy to start and operate and may not require formal registration. Examples of small businesses include shops, bakeries, millers, etc. The relatively well established small businesses may produce for export either directly or through large businesses. However, the majority of small businesses produce for the local market.

**A Medium Enterprise** these are very well established businesses, which may employ up to 100 people. They operate from well-established and permanent business premises. They use advanced technology and produce on a relatively large scale. They require a lot of capital to be started and such businesses are formally registered as limited liability companies. These businesses may be producing for the local as well as the export market. Examples of such businesses include big bakeries, milk processing and packaging businesses, coffee hulling factories, mattress manufacturing factories, etc.

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 poverty alleviation. 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. In 2010, Uganda was estimated to have over 1,500,000 enterprises classified as SMEs and forming 90 percent of Uganda’s private sector. SMEs employ approximately 1.5 million people equivalent to 90% of total non-farm private sector worker (John Walugembe Presentation), most of SMEs are involved in trading, agro processing and small scale manufacturing. Majority of SMEs are located in Kampala and the Central region.

Access to finance 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. Internally, most SMEs lack creditworthiness and management capacity, so they have trouble securing funds for their business activities such as procuring raw materials and products, and investing in plant and equipment. From the external perspective, SMEs are regarded as insecure and costly businesses to deal with because they lack required collateral and have the capacity to absorb only small amount of funds from financial institutions. So they are rationed out in their access to credit because of high intermediation costs, including the cost of monitoring and enforcement of loan contracts. To overcome some of the constraints, the government and other players such as the Bank of Uganda (BOU), have designed programs and policies that are market driven and market non-distorting to support SMEs. Government has, for example, created stable macroeconomic conditions, liberalized the economy, and encouraged the growth of micro-financing business. A law is being enacted to guide the development and sustainability of micro-finance institutions while at the same time allowing them to collect deposits. Nevertheless, the challenge to SMEs in accessing financial services will also depend on how they themselves increase their creditworthiness. The table below shows the profitability performance of Jiadefu supermarket.

<table>
<thead>
<tr>
<th>Year</th>
<th>Reported profit as at 1st January</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SHS(000) millions</td>
</tr>
<tr>
<td>2006</td>
<td>6,000</td>
</tr>
<tr>
<td>2007</td>
<td>5,800</td>
</tr>
<tr>
<td>2008</td>
<td>5,250</td>
</tr>
<tr>
<td>2009</td>
<td>4,300</td>
</tr>
</tbody>
</table>

Source: primary data

1.2 Problem statement

Despite the increase in credit institution, SMEs have little access to finance from MFIs, which hamper their performance and eventual growth (Accord 1999). From a pilot study of SMEs in Wandegeya areas, the findings were: out of 10 shops in each area, an average of 4 source money from MFIs and other financial institutions while the rest rely on donations or personal savings. However, only 5% of those who source funds have been able to grow or maintain business for more than three years. Most of them have collapsed due to problems in loan repayment. From the financial statement of Jiadefu supermarket
has revealed that the level of profitability has gone down compared to the previous years which brings about significant business performance.

1.3 Purpose of the study
The purpose of the study was to establish the extent to which access to finance affects the performance of small and medium enterprises.

1.4 Objectives of the study
The study was guided by the following specific objectives:

1) To establish the source of finance to SMEs.

2) To determine factors that influences the performance of SMEs.

3) To assess the relationship between access to finance and the performance of small and medium enterprises

1.5 Research questions
- What are the sources of finance for SMEs?
- What factor influences the performance of SMES?
- What is the relationship between access to finance and the performance of small and medium enterprises?

1.6 Scope of the study
The study sought to find out the effect of access to finance on the performance of small and medium enterprises. The study was conducted in Wandegeya in Kampala district and the study findings relate to the period between 2008 and 2010

1.7 Significance of the study
The information that was captured in this research is aimed mainly to assist owners of SMEs in determination of 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.
CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction
This chapter provides an insight of the related literature on the study of variables. It provides literature on major aspects of the research, which include small and medium enterprises, access to finance, performance. This will fulfill the purpose of the study of relating the access to finance by SMEs to their performance.

2.1 Definition of SME’S
The lack of a universal definition for SMEs is often considered to be an obstacle for business studies and market research. Definitions in use today define thresholds in terms of employment, turnover and assets. They also incorporate a reasonable amount of flexibility around year-to-year changes in these measures so that a business qualifying as an SME in one year can have a reasonable expectation of remaining an SME in the next. The thresholds themselves, however, vary substantially between countries. As the SME thresholds dictate to some extent the provision of government support, countries in which manufacturing and labor-intensive industries are prioritized politically tend to opt for more relaxed thresholds (Oketch, H., A. Abaga and D. Kulundu. 1995).

The term SME 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 SME some of the commonly used criteria are the number of employees, value of assets, value of sales and size of capital as well as turnover. Among them the most common definitional basis used is employees because of the comparatively ease of collecting information and here again there is variation in defining the upper and lower size limit of an SME. In developing countries the number of employees and size of asset or turnover for SME tend to be much smaller compared to their counterparts in developed countries due to their relative size of business entities and economies (Parker, J. C. and T.R. Torres. 1994. “Micro and small enterprises in Kenya: Results of the 1993 national baseline survey” Sponsored by USAID.).

The abbreviation SME occurs commonly in the European Union and in international organizations, such as the World Bank, the United Nations and the WTO. It means that small and medium enterprises which are further defined as companies whose headcount or turnover falls below certain limits. EU Member States traditionally have their own definition of what constitutes an SME, for example the traditional definition in Germany had a limit of 250 employees, while, for example, in Belgium it could have been 100. But now the EU has started to standardize the concept. Its current definition categorizes companies with fewer than 10 employees as "micro", those with fewer than 50 employees as "small", and those with fewer than 250 as "medium" Small medium organizations need to have between 20-500 employees (European Commission (2003-05-06)).
**SME Finance** is the funding of small and medium sized enterprises and represents a major function of the general business finance market in which capital for firms of types is supplied, acquired, and cost/price. Capital is supplied through the business finance market in the form of bank loans and overdrafts; leasing and hire-purchase arrangements; equity/corporate bond issues; venture capital or private equity; and asset-based finance such as factoring and invoice discounting. (Adams, D.W. 1992 “Taking a fresh look at informal finance”. In D.W. Adams and D.A. Fitchett, eds., *Informal Finance in Low Income Countries*, Boulder: Westview Press.).

However, it should be noted that not all business finance is external/commercially supplied through the market. Much finance is internally generated by businesses out of their own earnings and/or supplied informally as trade credit (i.e., delays in paying for purchases of goods and services).

### 2.1.1 Importance of SME in Socio-Economic Development

There is a general consensus that the performance of SMEs is important for both economic and social development of developing countries. From the economic perspective, SMEs provide a number of benefits (Advani, 1997). SMEs have been noted to be one of the major areas of concern to many policy makers in an attempt to accelerate the rate of growth in low-income countries. These enterprises have been recognized as the engines through which the growth objectives of developing countries can be achieved. They are potential sources of employment and income in many developing countries.

SMEs seem to have advantages over their large-scale competitors in that they are able to adapt more easily to market conditions, given their broadly skilled technologies. They are able to withstand adverse economic conditions because of their flexible nature (Kayanula and Quartey, 2000). SMEs are more labour intensive than larger firms and therefore have lower capital costs associated with job creation (Anheier and Seibel, 1987; Liedholm and Mead, 1987; Schmitz, 1995). They perform useful roles in ensuring income stability, growth and employment. Since SMEs are labour intensive, they are more likely to succeed in smaller urban centers and rural areas, where they can contribute to a more even distribution of economic activity in a region and can help to slow the flow of migration to large cities. Due to their regional dispersion and their labour intensity, it is argued, small-scale production units can promote a more equitable distribution of income than large firms. They also improve the efficiency of domestic markets and make productive use of scarce resources, thus facilitating long-term economic growth (Kayanula and Quartey, 2000).

SMEs contribute to a country’s national product by either manufacturing goods of value, or through the provision of services to both consumers and/or other enterprises. This encompasses the provision of products and, to a lesser extent, services to foreign clients, thereby contributing to overall export performance. SMEs also account for about 90% of the formal business entities in Uganda, contributing 80% of GDP and providing about 61% of employment (CSS, 1998; Ntsika, 1999; Gumede, 2000; Berry *et al.*, 2002).

From an economic perspective, however, enterprises are not just suppliers, but also consumers; this plays an important role if they are able to position themselves in a market with purchasing power: their demand for industrial or consumer goods will stimulate the activity of their suppliers, just as their own activity is stimulated by the demands of their clients. Demand in the
form of investment plays a dual role, both from a demand-side (with regard to the suppliers of industrial goods) and on the supply side (through the potential for new production arising from upgraded equipment). In addition, demand is important to the income-generation potential of SMEs and their ability to stimulate the demand for both consumer and capital goods (Berry et al., 2002).

2.1.2 Categories of small and medium enterprises in Uganda

The following are the various types of SMES operating in Uganda according to proceedings of the symposium on modalities for financing SMEs in Uganda UNCTAD 2002.

(a) Survivalist enterprises

Are activities by people unable to find a paid job or get into an economic sector of their choice. Income generated from these activities usually falls far short of even a minimum income standard, with little capital invested, virtually no skills training in the particular field and only limited opportunities for growth into a viable business. Poverty and the attempt to survive are the main characteristics of this category of enterprises. Given the large number of people involved in survivalist activities, this constitutes a vast challenge, which has to be tackled within the broader context – Quick economic activities – No skills

(b) Small enterprises

Are very small businesses, often involving only the owner, some family member(s) and at the most one or two paid employees. They usually lack 'formality' in terms of business licenses, value-added tax (VAT) registration, formal business premises, operating permits and accounting procedures. Most of them have a limited capital base and only rudimentary technical or business skills among their operators. However, many microenterprises advance into viable small businesses. Earning levels of microenterprises differ widely, depending on the particular sector, the growth phase of the business and access to relevant support. Small enterprises constitute the bulk of the established businesses, with employment ranging between five and about 50. The enterprises will usually be owner-managed or directly controlled by the owner-community and are mostly family owned. They are likely to operate from business or industrial premises, be tax-registered and meet other formal registration requirements. Classification in terms of assets and turnover is difficult, given the wide differences in various business sectors like retailing, manufacturing, professional services and construction – Lack formalities

(c) Medium enterprises

They constitute a category difficult to demarcate vis-à-vis the "small" and "big" business categories. It is still viewed as basically owner/manager-controlled, though the shareholding or community control base could be more complex. It is characterized by the employment of more than 200 employees and capital assets of a substantial amount of about Ush 2million (excluding property)

2.2 Sources of SMEs financing

Financial support systems include all external sources of finance available to enterprises. The range and quality of financial services vary according to the existence of a well-functioning
banking system, the sophistication of financial markets, and the availability of (semi)informal intermediary agents specializing in supplying financial services to the most needed. Internal sources of finance (entrepreneurs own savings) and those provided through family and friends (gifts and soft loans) are not part of a country’s financial support system, though there is the need to take them into account as they constitute the main source of SME finance in Africa. (Kariuki, P. 1995 Small Enterprises Development, vol. 6)

These internal sources account for around 90 per cent of enterprise start-up finance in Uganda, Malawi and Ghana. Formal loans from an organization, bank, or moneylender are relatively uncommon at the enterprise formation stage. Therefore, it appears that financial support systems do not really serve the needs of start-up entrepreneurs in Africa, who tend to finance themselves with the help of friends and relatives. The inability of access external finance at this early stage is considered to be an important part of the explanation for the high failure rate of start-up micro-enterprises in Africa. Interestingly, similar evidence has been found in newly industrialized countries whereby SME financial support structures are more comprehensive and developed (Levy, et al., 1999) It is when the enterprise is established and with a measure of credibility that formal financing becomes more accessible to SMEs, though informal finance from internal sources remains predominant.

2.2.1 Available Financing for SMEs in Uganda

(a) Banking Sector Financing

Commercial banks constitute the main providers of financial services for enterprises. In Africa, they used to be dominated by foreign banks, but since the 1980s, a significant number of private-owned banks have developed in most countries. Commercial banks offer a wide range of financial services including savings, deposits, credits, transfers, insurance arrangements, and even leasing. The main lending mechanism is short-term working capital; however, the availability of other financial services depends on the nature of the deposits that are being used for funding, as well as the demand for it.

Given their profit-making principles, commercial banks find difficult to provide financial services to SMEs because SMEs are considered ‘high risk’ clients. Poor or incomplete business plans, when at all presented, make difficult the task of assessing the financial situation of such firms and their prospects for success. Second, transaction costs are inversely related to loan size, making lending in small amounts unprofitable. Third, restrictive financial policies impede commercial banks to set up their own mechanism of loan recovery, therefore limiting how much they can lend and to whom.

(b) Micro-financing

This industry has proved to be a reliable delivery vehicle for financial services to SMEs. They consist of licensed institutions, NGOs co-operatives as well as a large collection of associations ranging from women and youth clubs to loosely organized bodies. They offer savings, payments and insurance services to their clients.
The strength of MFIs is that they serve the rural areas at low costs. Their service delivery is flexible, which makes it easy for weak SMEs to access financial services from them. Their weaknesses, though, lie in their weak operational and management information systems, poor internal controls, limited access to technical assistance, and dependence on donor funding. A centre has been set up at the Uganda Institute of Bankers to address the issue of capacity building of these MFIs.

(c) Venture Capital Financing

Venture capital is equity investment provided by an outsider who is not the owner of the company. The concept behind venture capital is very simple. Instead of obtaining debt or bank finance, venture capitalists provide equity capital for other businesses, therefore sharing risks. It is a form of long-term investment for start-up and growing businesses that are seen as having a significant potential for economic growth (UNIDO, 2002 b).

The benefits of venture capital go beyond the provision of long-term finance. Since they share risks, venture capitalists, unlike banks, get actively involved in the functioning of the firm, from management to shop-floor operations. Given their knowledge gained from investing in other companies with similar growth challenges, venture capitalists or ‘business angels’ can help their investees in overcoming the specific bottlenecks that hamper their performance. Following profit-making principles, venture capitalists seek high-return opportunities while minimizing risks. In the developed world, ‘business angels’ have played a significant role in the success of small export-oriented high-tech firms, particularly in the fields of electronics and ICT.

(d) Leasing

Leasing has been an alternative means of financing capital investment of SMEs with minimum initial outlay. In Uganda, the industry is still too small and young comprising only one leasing company. A lease is a contract between an owner of equipment (the lessor) and another party (the lessee) giving the lessee possession and use of a specific asset in return for payment of specified rentals over an agreed period. The lessee selects the equipment and the lessor purchases it for the former's use.

Advantages of leasing for SMES:

- It reduces the collateral requirements of formal lending, as the asset leased constitutes the collateral itself. Thus, borrowers without well-documented balance sheets or credit histories can still have access to capital equipment.
- It encourages SMEs to use the working capital for productive purposes, thereby having a potential to generate significant economic impact.
- Leasing is particularly important for companies with need of long-term working capital, which most institutions are unsuited to provide.
- On the lessor side, it solves the problem of equity finance when the bank provides the service itself, thereby reducing the supervision and imposition restrictive rules by a third party.
- It reduces transaction costs as there is no need of screening detailed business plans proper of conventional financial services.
(e) Capital markets

The development of stock markets is the most sophisticated phase in the evolution of any financial sector. In the last years, stock markets have been created through Africa partly due to stringent privatization policies and the establishment of capital market authorities. Some are country-specific while other are regional or pan-African.

Uganda’s capital market became fully fledged with the inception of the Uganda Stock Exchange (USE) in 1998. However, most SMEs cannot take advantage of the Exchange because of listing rules regarding disclosure requirements, which require companies to provide credible information to investors.

The banking sector has offered equity financing to a few successful SMEs. For example, SMEs such as UGACHICK LTD and COMMERCIAL MICROFINANCE LTD have received equity financing from Messrs Development Finance Company of Uganda (DFCU), East African Development Bank (EADB) and the European Investment Bank (EIB).

2.2.2 The problems that hinder SMEs access to finance

The development literature focuses a good deal of attention on issues faced by SME in accessing finance. Traditionally, the focus is on obstacles created by commercial banks or equity funds, or on imperfections in the broader institutional environment. However, SME also make decisions about financing and display attitudes that have an important bearing on financing decisions. Therefore, constraints may also appear on the ‘demand side’ of the financing marketplace.

The economics literature on enterprise financing has identified five obstacles that may prevent SME from obtaining adequate financing. These obstacles are as follows:

- **High Interest Rates**: In Uganda Commercial banks average lending rates remain high averaging between 18% - 26% this has mainly be due to lack of competition in the banking sector. This was brought about by the following: few banks controlling a large market share, high operational inefficiency, high operational costs and the high risk of borrowers.

- **Collateral Requirements**: When granting loans, commercial banks protect themselves with assets (mostly real estates) collateral that is two to three times the value of the loan. The conventional requirements usually exclude the SMEs because they often lack assets. Many banks, particularly the transnational ones, do not accept collateral that is far from the main urban centers (King, K. and McGrath, S. (2002). Globalization, Enterprise and Knowledge. Symposium, Oxford).

- **High & Multiple Transaction Cost**: Commercial banks require the following in securing loans: application fees, processing fees, monitoring fees, insurance and compulsory
savings which has contributed to the high and are part of the multiple transaction costs. 
(Dondo A. (2003).

- **Risky Sectors:** Most Banks perceive the SME sector as being risky. The perception is that small clients do not have stable, viable businesses for which to borrow and from which to generate repayment. The agricultural sector is also not favored by the commercial banks due to its nature of unpredictability which is as a result of its high dependency on external factors like weather.

- **Delays in Processing:** Many banks do not quickly process loans for the SME’s with in the time or season in which they require them.

- **Inflexible Conditions attached with the loans:** In general, most loans that can be accessed by SME’s do not come without strings attached e.g. Limited term i.e. limited number of years with in which to pay the loan, limited grace period with in which to start paying the loan as well as

- **Product Awareness:** Some SME’s come up with innovative products that could easily be produced for local or international markets. Banks in general are not at ease with SME’s producing products that they are not sure will be sustainable in the market.

- **Savings Mobilization:** The Credit Crunch has also contributed to the fact that banks are even less willing to lend to SME’s. Many of them are now focusing on Savings customers or salary based loans for individuals which have a very low default rate.

- **Variety of Financial Products for SMEs:** There is limited variety of financial products at the banks for SME’s

### 2.3 Performance of SME’s

According to Brown (1996), performance measures must focus attention on what makes, identifies and communicates the drives of success, support organization learning and provides a basis for assessment and rewards.

On the other hand, West and Fair (1996), 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.

Stoner (1989) adds that performance entrails effectiveness which refers to the firm’s ability to serve and produce what the market requires at a particular time and efficiency, which means achieving the objectives at the lowest cost possible with highest possible benefits.


Studies by Whyte (1991), show that performance can be measured at both organization and individual levels and this measurement is sometimes referred to as performance appraisal. He urges that organizations have desired potentials in terms of capacity attraction, market share and financial strength and that performance is the difference between those potentials and what has been achieved.

For the purpose of this study, performance would be looked at in terms of financial strength of the enterprise. Stoner (1996) reveals that profitability has been the most widely used measure of
financial performance. Profitability is the excess of income and expenditure which can be expressed by ratios of Gross profit margin, net profit and return on equity.

A new paradigm of performance measure has been adopted by many SME’s. This is based on identifying what the business does in terms of levels of processes and attaching Key performance indicators to those processes. 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.

The traditional Statement of Financial Performance, Statement of Assets and Liabilities, management accounts are not enough to effectively manage businesses which are seeking to survive and add shareholder/owner value. Management needs additional timely information, much of which is not traditional Financial Data, if they are going to effectively manage their businesses. The information must be able to be understood by all levels of staff so that they can continually measure their actual performance against the business’s pre-determined targets

2.4 Relationship between access to finance and performance of SMEs.

There is a strong relationship between access to finance and performance of SMEs. 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, this will improve the performance of SMES (UNCTAD 2002).
CHAPTER THREE
METHODOLOGY

3.0 Introduction
This chapter deals with research design, description of target population, description of the sample and sampling procedures, research instruments, data collection procedures and data analysis procedures.

3.1 Research design
William G (2003) defines research design as the scheme, outline or plan that is used to generate answers to research problem. It can also be defined as the master plan specifying the methods and procedures for collecting and analyzing the needed information. In order to achieve this, a cross sectional survey study used, this is a combination of both descriptive and analytical methods on the terms of financial access and performance. The performance of small and medium enterprise was analyzed over a period of 4 years in response to the financial access.

3.2 Study population
The study was carried out in Kampala town, within the environs of Wandegeya areas. The targeted population was of a group of 30 small and medium enterprises from supermarkets, fast foods, bakery and small Rolex kiosk.

Allan & Emma (2003) defined population as basically, the universe of units from which the sample is to be selected. ‘Units’ is employed because it is not necessarily people alone who are sampled. It can also be defined as the entire group of people, events, or things of interest that the researcher wishes to investigate

3.3 Sample Size
Sekaran (2003) describes sample as a subset of the population. It comprises of some members selected from it. ie some of the elements of the population form the sample. Also is defined as a segment of the population selected for investigation.

Within the population a sample 30 enterprise was selected as a representative of the whole population. In addition of 5 financial institutions will be interviewed to give their views on the
subject matter. This helped the researcher to get an administrative opinion on the issues raised in this study.

3.4 Sampling method and design
The simple sampling method was used to select the sample because it was regarded as most appropriate. In this study, a sample of 30 enterprises was used as a representative of the whole population of small and medium enterprise that access finance from financial institution.

3.5 Measurement of variables
The two variables in this respect are financial access and performance of small and medium enterprises. The former is the independent variable while the later is the dependant variable. The independent variable measured parameters such as loan size, loan period, interest rate and processing period among others. The dependent variable, performance measured variables such as changes in level of assets, level of sales, profitability and number of employees.

3.6 Sources of data
The study used both secondary and primary data. Primary data was got through use of observation, questionnaires and interviews while secondary data was sourced from documented statements and reports on small and medium enterprises.

3.7 Instruments of data
Primary data was obtained form respondents by the researcher through interviews, administration of questionnaires. Secondary data was obtained from documented statements. Interviews were also conducted among the selected financial institutions while the questionnaires were addressed to the enterprises. As regards secondary data, annual reports and other published material were used. These included loan manual, financial reports and any other documents that were seen to be relevant to the study.

3.8 Data processing and analysis
3.81 Data processing
Data from the field was sorted, coded and organized in tables to reveal the percentage scores of the different study attributes
**Editing:** The researcher edited the data collected for accuracy and completeness.

**Coding:** The researcher coded the pre-coded question so that all answers obtained from different respondents were classified into meaningful categories.

**Frequency tabulation:** This involved placing the number of responses falling into a particular category and recording them using tallies so as to come with a statistical table. This was an easy way of organizing raw data for easy interpretation.

### 3.82 Data analysis

#### Qualitative analysis

**Key informant interview:**
Data from key informants was analyzed in three ways i.e. Thematim verbatim and case studies. Thematim involved condensing individual responses into similar themes and integrating them into interview schedule for easy analysis. In verbatim, the researcher recorded statements, comments or remarks of the respondents. This involved direct quotation of the words, statements or comments of the respondents. In case study, interesting and relevant stories were captured and placed in box or flame. The use of the qualitative design gave deeper insights of the issues uncovered by the qualitative research methods.

### 3.9 Anticipated problems of the study

The researcher met a number of problems while collecting data. These problems included financial constraints, biased clients, unfavorable situation, lack of adequate time and respondent’s failure to understand the questionnaires. The fact that uniform questionnaires were given to all the respondents irrespective of the level of education, there was a problem of misinterpretation of the questionnaires. However a number of strategies were put into place to solve the above problem. Simple and clear question were used to avoid misinterpretation.
CHAPTER FOUR
PRESENTATION, ANALYSIS AND INTERPRETATION OF THE FINDINGS

4.0 Introduction
The aim of this study was to evaluate the effect of access to finance on performance of small and medium enterprise. This chapter deals with the presentation, analysis and interpretation of the findings consistent with the research objectives in chapter one. The tables and figures in this chapter were derived from the findings of the study. The targeted was 30 small and medium enterprises, but only 27 questionnaires out of 30 given out were returned. This represented 90% of total population hence the analysis was done using 27 questionnaires received from the respondents.

Table 1: Table of questionnaires

<table>
<thead>
<tr>
<th>Details</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Returned questionnaires</td>
<td>27</td>
</tr>
<tr>
<td>Unreturned questionnaires</td>
<td>3</td>
</tr>
<tr>
<td>Total questionnaires</td>
<td>30</td>
</tr>
</tbody>
</table>

4.1 Presentation of the findings

4.1.1 Demographic characteristics of the respondents
This part address itself to presenting the demographic characteristic of the respondents. Bio data includes age, duration of enterprise, business nature and location of the enterprise among others. Data on respondents’ demographics is summarized in tales below:
4.1.2 Age distribution among the respondents

Table 2: Age distribution among the respondents

<table>
<thead>
<tr>
<th>Age bracket</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 20 years</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>21 – 30 years</td>
<td>17</td>
<td>63%</td>
</tr>
<tr>
<td>31 – 40 years</td>
<td>7</td>
<td>26%</td>
</tr>
<tr>
<td>Above 40 years</td>
<td>3</td>
<td>11%</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100%</td>
</tr>
</tbody>
</table>

Table 2 indicates that 63% of respondents were between 21-30 years. This shows that most small enterprises are established by young individuals who have cleared studies but due to high unemployment end up with small enterprises. Both 26% and 11% represent business enterprises by older entrepreneurs between 31 to above 40. This group comprise of enterprises that have survived for more than 3 years.

4.1.3 Gender of the respondents

Table 3: Gender of respondents

<table>
<thead>
<tr>
<th>Gender</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>8</td>
<td>30%</td>
</tr>
<tr>
<td>Female</td>
<td>19</td>
<td>70%</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: primary Data
Table 3 reflects that 30% of the genders comprised of males while 70% comprised of women. This indicates that most of the small businesses are owned by women who represent a larger percentage. This is because most of these women are tired of sitting at home as house wives thus most of them start business as means of being productive and also independent.

4.1.4 Marital status of the respondents

Table 4: Marital status of the respondents

<table>
<thead>
<tr>
<th>Marital status</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>9</td>
<td>33%</td>
</tr>
<tr>
<td>Married</td>
<td>11</td>
<td>41%</td>
</tr>
<tr>
<td>other</td>
<td>7</td>
<td>26%</td>
</tr>
</tbody>
</table>

Graph 2

Table 4 indicates that 41% of the respondents were married, 33% were single and 26% fell under other who comprised of those who did not wish to disclose their marital status.

4.2 Business profile:

4.2.1 Number of employees

Table 5: Number of employees

<table>
<thead>
<tr>
<th>Employees</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 5</td>
<td>17</td>
<td>63%</td>
</tr>
<tr>
<td>5 – 10</td>
<td>7</td>
<td>26%</td>
</tr>
<tr>
<td>10 – 15</td>
<td>3</td>
<td>11%</td>
</tr>
<tr>
<td>15 and above</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100%</td>
</tr>
</tbody>
</table>
The graph 3 from table 5 shows that 63% small and medium enterprises have less than 5 employees, 26% have more than 5 employees, and only 11% have 10 to 15 employees.

4.2.2 Location of enterprises

The findings from the survey revealed that the type of business, capital and labour requirements dictate the location of the enterprise. It was found out that most of the entrepreneurs preferred to establish the enterprises near their homes because of the needed flexibility in running a business and a family, besides cheap labour and avoiding other expenses such as rent. Some of the entrepreneurs preferred traditional market because of the ready available customers.
4.2.3 Duration of enterprise

Table 6: Duration of enterprise

<table>
<thead>
<tr>
<th>Duration</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 2 years</td>
<td>14</td>
<td>52 %</td>
</tr>
<tr>
<td>2 – 4 years</td>
<td>9</td>
<td>33 %</td>
</tr>
<tr>
<td>4 years and above</td>
<td>4</td>
<td>15 %</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>27</strong></td>
<td><strong>100 %</strong></td>
</tr>
</tbody>
</table>

Source: primary data

It is evident from the above table that, most of the enterprises were recently started that is 52%. This shows that the rate of starting business is high. The rest comprises of 33 % and 15 %, this are enterprises that have been established for more than two years. It is evident that as more years go by less enterprises are able to survive.

4.2.4 Ownership of the enterprises

Graph 5

forms of ownership

- Majority of the businesses under study comprised of sole proprietorships which represented 70% while partnerships were at 30%. None of the businesses were registered as limited companies.
4.3 source of finance for the enterprises

4.3.1 Preferred financial institution

Table 7: Preferred financial institution

<table>
<thead>
<tr>
<th>Financial institution</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro finance institution</td>
<td>5</td>
<td>19 %</td>
</tr>
<tr>
<td>Banks</td>
<td>2</td>
<td>7 %</td>
</tr>
<tr>
<td>Government</td>
<td>0</td>
<td>0 %</td>
</tr>
<tr>
<td>SACCOS</td>
<td>3</td>
<td>11 %</td>
</tr>
<tr>
<td>MERRY GO ROUNDS</td>
<td>17</td>
<td>63 %</td>
</tr>
</tbody>
</table>

Source: primary data

It is evident that most entrepreneurs preferred merry go round which is 63% and also micro finance institution which is 19%. Interest rates in the MFI are much higher than those offered by commercial banks, although the conditions of payment are more appealing to small borrowers.

The strength of MFIs is that they served the rural areas at low costs. Their service delivery is flexible, which makes it easy for weak SMEs to access financial services from them. Their weaknesses, though, lie in their weak operational and management information systems, poor internal controls, limited access to technical assistance and dependence on donor funding. While the banks are definitely more qualified to lend to SMEs, it is a widely held view that banks, particularly commercial banks, have difficulties in financing start-ups and also they have high interest rates.

4.32 Response on loan application

Table 8: Response on loan application

<table>
<thead>
<tr>
<th>Loan application</th>
<th>number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>16</td>
<td>59 %</td>
</tr>
<tr>
<td>No</td>
<td>11</td>
<td>41%</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100 %</td>
</tr>
</tbody>
</table>

Source: primary
Most of the respondents have applied for loans 59% this is because loans can be used to finance both the working capital and fixed asset needs of the business. While 41% have not this is because those SME borrowers who have negative feelings about their banks are generally reluctant to seek loan. It was established that SMEs want favourable pricing of credit so that they are able to repay their loans without difficulty.

4.3.3 Purpose of the loan application

Table 9: Purpose of the loan application

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business start up</td>
<td>19</td>
<td>70 %</td>
</tr>
<tr>
<td>Business expansion</td>
<td>8</td>
<td>30 %</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>27</strong></td>
<td><strong>100 %</strong></td>
</tr>
</tbody>
</table>

Source: primary data

70% of the businesses had applied for the loan to finance their start up operations while 30% had applied for financing for their business expansion. This means that most entrepreneurs have inadequate capital to start up their enterprises thus the demand for finance is high.

4.3.4 Successful loan application:

Table 10: Successful loan application

<table>
<thead>
<tr>
<th>Successful application</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>9</td>
<td>33%</td>
</tr>
<tr>
<td>No</td>
<td>18</td>
<td>67%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>27</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: primary data

Most of these entrepreneurs (67%) are turned down by banks because they are evaluated on the basis of a checklist which includes: Audited financial statements for the last three years including management accounts and also project proposal highlighting the strengths, weaknesses, opportunities and threats. Financial and accounting records are rarely in place, and where they are available, their accuracy is usually doubted.
4.3.4 Sources of funding prior to loan application:

Table 11: Sources of funding prior to loan application

<table>
<thead>
<tr>
<th>Source</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Venture capital</td>
<td>4</td>
<td>15 %</td>
</tr>
<tr>
<td>Donations</td>
<td>7</td>
<td>26 %</td>
</tr>
<tr>
<td>Personal savings</td>
<td>16</td>
<td>59 %</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>27</strong></td>
<td><strong>100 %</strong></td>
</tr>
</tbody>
</table>

Source: primary

Prior to their loan applications, most of the businesses (59%) relied on personal savings for their business financing. Only 15% used venture capital as a source of financing.

4.3.5 Financial assistance is important for growth:

Table 12: Financial assistance is important for growth

<table>
<thead>
<tr>
<th>Financial assistance is important for growth</th>
<th>frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>True</td>
<td>22</td>
<td>81 %</td>
</tr>
<tr>
<td>False</td>
<td>5</td>
<td>19 %</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>27</strong></td>
<td><strong>100 %</strong></td>
</tr>
</tbody>
</table>

While 81% of the respondents agreed that financial assistance from financial institutions is an important element for growth and sustainability of their ventures, 19% still had their doubts.

4.4 Fund accessibility:

4.4.1 Aspects limiting fund accessibility

Graph 6
Collateral was viewed as the most prone factor to the access of funds by SMEs followed by credit worth of an entity. This was followed closely by profitability of the entity and period of operation, this is ability of the entity to provide collateral in case it does not settle the loan repayment. Gender and capital invested were the least limits.

4.4.2 Conditions to which SMEs are viewed as risky ventures:

a) Uncertain competitive advantage

Table 13: Conditions viewed as risky ventures

<table>
<thead>
<tr>
<th>Response</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>11</td>
<td>41%</td>
</tr>
<tr>
<td>Agree</td>
<td>6</td>
<td>22%</td>
</tr>
<tr>
<td>Neutral</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Disagree</td>
<td>9</td>
<td>33%</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>1</td>
<td>4%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>27</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: primary data

While 37% agreed that uncertain competitive advantage made financial institutions view SMEs as risky ventures, 63% totally disagreed.

b) Less equipped in terms of human and capital resources:

Table 14: Less equipped in terms of human and capital resources

<table>
<thead>
<tr>
<th>Response</th>
<th>frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>2</td>
<td>7%</td>
</tr>
<tr>
<td>Agree</td>
<td>4</td>
<td>15%</td>
</tr>
<tr>
<td>Neutral</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Disagree</td>
<td>15</td>
<td>56%</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>6</td>
<td>22%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>27</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: primary data

While 22% of the respondents agreed that SMEs are less equipped in terms of human and capital resources, 78% disagreed on this being a hindrance to finance. They argued that it is only
through access of funds that SMEs can equip themselves with standard human and capital resource.

c) Inadequate accounting systems:

Table 15: Inadequate accounting systems

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>9</td>
<td>33 %</td>
</tr>
<tr>
<td>Agree</td>
<td>11</td>
<td>41 %</td>
</tr>
<tr>
<td>Neutral</td>
<td>0</td>
<td>0 %</td>
</tr>
<tr>
<td>Disagree</td>
<td>4</td>
<td>15 %</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>3</td>
<td>11 %</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>27</strong></td>
<td><strong>100 %</strong></td>
</tr>
</tbody>
</table>

Source: primary data

Majority of the respondents (74%) established that most of SMEs do not prepare accounts and lack ability to internally process information relating to their projects. Inadequate accounting systems was found to be a major problem as to why SMEs are viewed as risky venture, while 26% disagreed.

d) Uncertain repayment capacity:

Table 16: Uncertain repayment capacity

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>10</td>
<td>37 %</td>
</tr>
<tr>
<td>Agree</td>
<td>7</td>
<td>26 %</td>
</tr>
<tr>
<td>Neutral</td>
<td>0</td>
<td>0 %</td>
</tr>
<tr>
<td>Disagree</td>
<td>6</td>
<td>22 %</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>4</td>
<td>15 %</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>27</strong></td>
<td><strong>100 %</strong></td>
</tr>
</tbody>
</table>

Source: primary data

63% were in the view that uncertain payment capacity by SMEs makes financial institutions view them as risky ventures but 27% disagree. Most of the respondent’s argued that banks see SMEs lending as a high-risk activity, given the larger proportion of business failures in this segment. As a result, they will inevitably charge a higher risk premium which makes repayment to become hard.
4.4.3 Perception on financial institutions:

a) Effort to reach SMEs by financial institution

Table 17: effort to reach SMEs by financial institution

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>2</td>
<td>7 %</td>
</tr>
<tr>
<td>Agree</td>
<td>4</td>
<td>15 %</td>
</tr>
<tr>
<td>Neutral</td>
<td>1</td>
<td>4 %</td>
</tr>
<tr>
<td>Disagree</td>
<td>14</td>
<td>52 %</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>6</td>
<td>22 %</td>
</tr>
</tbody>
</table>

Source: primary data

Majority of the respondents (74%) feel that financial institutions have not done enough to reach SMEs while 22% argue that much has been done. 4% are neutral about the issue.

b) Awareness of financial institution

Table 18: Awareness of financial institution

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>7</td>
<td>26%</td>
</tr>
<tr>
<td>Agree</td>
<td>12</td>
<td>44%</td>
</tr>
<tr>
<td>Neutral</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Disagree</td>
<td>3</td>
<td>11%</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>5</td>
<td>19%</td>
</tr>
</tbody>
</table>

Source: primary data

70% agree that SMEs have great awareness of financial assistance from financial institutions while 30% disagree.
c) Financial institutions only target large firms

Table 19: Financial institutions only target large firms

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>14</td>
<td>52 %</td>
</tr>
<tr>
<td>Agree</td>
<td>6</td>
<td>22 %</td>
</tr>
<tr>
<td>Neutral</td>
<td>0</td>
<td>0 %</td>
</tr>
<tr>
<td>Disagree</td>
<td>5</td>
<td>19 %</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>2</td>
<td>7 %</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100 %</td>
</tr>
</tbody>
</table>

Source: primary data

A majority (74%) felt that financial institutions mainly targeted large firms while 26% disagreed. It was established that financial institutions prefer large firms because SMEs are more vulnerable to market change and often have inadequate management capabilities and low turnovers.

d) Financial institutions are profit making:

Table 20: Financial institutions are profit making

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>12</td>
<td>44 %</td>
</tr>
<tr>
<td>Agree</td>
<td>7</td>
<td>26 %</td>
</tr>
<tr>
<td>Neutral</td>
<td>4</td>
<td>15 %</td>
</tr>
<tr>
<td>Disagree</td>
<td>3</td>
<td>11 %</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>1</td>
<td>4 %</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100 %</td>
</tr>
</tbody>
</table>

Source: primary data

While 70% of the respondents agreed financial institutions only aim at making profits from their services, 15% disagreed. 15% were indifferent.
e) Financial institutions terms and conditions could change with changes in business environment:

Table 21: financial institutions terms and conditions could change with changes in business environment

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>3</td>
<td>11 %</td>
</tr>
<tr>
<td>Agree</td>
<td>5</td>
<td>19 %</td>
</tr>
<tr>
<td>Neutral</td>
<td>2</td>
<td>7 %</td>
</tr>
<tr>
<td>Disagree</td>
<td>7</td>
<td>26 %</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>10</td>
<td>37 %</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>27</strong></td>
<td><strong>100 %</strong></td>
</tr>
</tbody>
</table>

Source: primary data

Table 22 indicates that most respondents (63%) disagree that financial institution could change their terms and conditions. Most of the argued that banks do not want to take risks and this terms and conditions are developed for this purpose. While 30 % of the respondents agreed, stating that banks had in some ways changed their feel that it is now less easy to access services from banks than it was a few years ago.

4.5 Performance of SMEs

4.5.1 Factors that have direct effect on performance:

Table 22: factors that have direct effect on performance

<table>
<thead>
<tr>
<th>Factors</th>
<th>important</th>
<th>neutral</th>
<th>Less important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>27</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Cost of finance</td>
<td>20</td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td>Access to land</td>
<td>23</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>Management skills</td>
<td>27</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Government regulation</td>
<td>27</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: primary data
From the table 23 and the bar graph above, it indicates that capital has major influence on the performance of a SME. It was also found that SMEs with strong internal management systems and good managerial expertise have a higher likelihood of performing better than those without such systems and skills. The government should provide a number of initiatives, policies and programmes to be put in place to enhance the development of enterprises in Uganda.

4.5.2 Rating of SMEs using performance indicators

a) Production volume

Table 23: Production volume

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Time</th>
<th>High</th>
<th>Average</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production volume</td>
<td>Start up</td>
<td>7</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>present</td>
<td>10</td>
<td>10</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: primary data

Table 24 indicates that most enterprises (81%) started with low production volume, this is because resources were scare and most entrepreneurs lacked experience in they investment. Presently most of them are producing high volume this because of the retained earnings which have plough back to the business and also they have acquired modern equipments which helps them to enjoy economies of scale. While others are still producing low, in most case these enterprises are still lacking finance.
b) Employment level

Table 24: Employment level

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Time</th>
<th>High</th>
<th>Average</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment level</td>
<td>Start up</td>
<td>2</td>
<td>8</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>present</td>
<td>8</td>
<td>7</td>
<td>12</td>
</tr>
</tbody>
</table>

Source: primary data

Table 25 indicates that most enterprises (63%) started with low employment level this is because most of them could not afford to hire due to the small nature of the business. Most of them used family labour as a main source of labour, leaving out potential worker thus low level of employment. Presently most businesses have improved from 63% to 44% in terms of low employment level due to accumulated asset and retained earnings. This indicates that SMEs given a chance can grow if their given flexible loans which suite their needs.

c) Sales volume

Table 25: Sales volume

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Time</th>
<th>High</th>
<th>Average</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales volume</td>
<td>Start up</td>
<td>0</td>
<td>7</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>Present</td>
<td>5</td>
<td>12</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: primary data

Table 26 indicates that most business (74%) at start up had low sales volume this because of the stiff competition and also lack of awareness from customer. Presently sales volume is still average, most entrepreneurs argued that lack of finance has limited them to certain brands which carter for a certain group leaving out other potential customer.

d) Profitability level

Table 26: Profitability level

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Time</th>
<th>High</th>
<th>Average</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitability level</td>
<td>Start up</td>
<td>0</td>
<td>8</td>
<td>19</td>
</tr>
<tr>
<td></td>
<td>present</td>
<td>2</td>
<td>11</td>
<td>14</td>
</tr>
</tbody>
</table>

Source: primary data

From table 27 profitability level of SMEs at start up was very low about 70% of the respondents confirmed this. They said that a portion of what they made had to pay taxes and also licenses for
the business. This greatly reduced their profits to average and low. Presently the level of low profitability has reduced to 52% and only 7% making high profits, this is due to low scale of operation by the entrepreneurs which is limited by finance.

4.6 Relationship between access to finance and performance of small and medium enterprises

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Access to finance</th>
<th>Performance of SMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to finance</td>
<td>Pearson Correlation: 1</td>
<td>.386(*)</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.047</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>27</td>
</tr>
<tr>
<td>Performance of SMEs</td>
<td>Pearson Correlation: .386(*)</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.047</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>27</td>
</tr>
</tbody>
</table>

Correlation is significant at the 0.05 level (2-tailed). Source: statistical package for social scientist (SPSS) output

Pearson correlation of access to finance and performance

\[ R = 0.386 \]

Result revealed the significance positive responses relation between access to finance and performance of SMEs that is 0.386. This shows moderate relationship between access to finance and performance of SMEs.

This reveals that if access to finance is adequate in small and medium enterprises there can be an increase in the performance of SMEs.
CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction
The study investigated and analyzed the relationship between access to finance and performance of small and medium enterprises in Kampala town in Wandegeya area. This is based on the first four chapters.

The dependent variable of the study was performance of small and medium enterprises and the independent variable was access to finance. This chapter consists of four sections, first presenting the summary of findings, secondly conclusion,thirdly presenting the recommendations and lastly presenting the areas of further research.

5.1 Summary of findings
5.1.1 Factors limiting access of finances by SMEs

The study showed that 59% of the respondents had applied for the loan, while only 41% did not apply for the loan. This shows that majority of the respondents had access to financial institutions and their services. Most of the loans applied for were for start up purposes as represented by 70% of the respondents. On the contrary, out of those who had applied for a loan, only 33% of the respondents were successful while 67% of the respondents were not successful. Most of the respondents cited the following as hindrances to their access of funds:

a) High interest rate

b) High collateral requirements:

c) Loan application process was tedious

d) Literacy concerning loan application

Majority of the respondents felt that they must be stable to be able to apply for the loan. They strongly felt that when the business is not performing, they will not be in a position to repay back the loan. They disclosed that in most of the financial institutions, business stability was a requirement.

The loan application process is tedious and one has to have a security in order to be able to access the loan. This brings about the issue of collateral. Majority of the businesses (85%) had
been in operation for less than five years and most of them had not accumulated enough profits or assets which could be used as security for the loans. This meant that most of these entities could not be able to apply for subsequent loans due to their repayment incapacity.

Some of the respondents felt that they do not have enough information about the loan application. The study showed that 74% of the respondents felt that financial institutions have not done enough to reach SMEs. They said that they need banks to educate them on the issues of the loan application and all that they need to consider to access credit facilities.

Furthermore, interest rate is also an issue that needs to be brought to book. This is because some of the respondents felt that the rates make them to shy away from the credit facilities since they have to repay heavily on the small sum of money that they borrow. This was attributed by the lack of adequate information and knowhow about finance policies of these institutions.

The study showed that 63% of the respondents were in the view that uncertain payment capacity by SMEs makes financial institutions view them as risky ventures. Some SMEs require quite a large amount of capital for start up or even for acquisition of equipment.

Inadequate accounting systems also hinder SMEs from qualifying for fund applications. The study shows that 74% of the respondents agreed with this as being a problem to loan applicants. Financial institutions do not want to risk loosing their money due to poor record keeping by SMEs.

A majority felt that financial institutions mainly targeted large firms since they have consistent profits and also have assets with which they can secure their loans with.

5.1.2 Performance of small and medium enterprises

The study showed that SMEs with strong internal management systems, capital and good managerial expertise have a higher likelihood of performing better than those without such systems and skills.

The government should increase the number of initiatives, policies and programmes to be put in place to enhance the performance of enterprises in Uganda.
5.1.3 Relationship between access to finance and performance of small and medium enterprises
The researcher used Pearson’s correlation coefficient to find the relationship between access and performance of small and medium enterprises and the finding revealed a positive relationship 0.368. This shows strong relationship between access to finance and performance of SMEs.

5.2 Conclusion
From the study, it is clear that there is great demand for financial services by SMEs. On the other hand, it is also evident that the supply for financial services is rampant from both formal and informal financial institutions. Even with all this demand and supply, SMEs continue to face myriad of challenges in trying to access financial assistance from these financial institutions.

Collateral requirements has been cited as a major cause of these financing problems coupled with misuse of funds meant to assist SMEs grow into sustainable ventures. Lack of knowhow by small business owners about financing policies of these institutions have made SMEs incur losses in the repayment process since they end up making less than they borrowed hence some of them are forced to close down. Incase they continue operating, they are incapable of acquiring a subsequent loan.

Proper research should be carried out by financial institutions to have a proper understanding of the financial needs of SMEs. This should be done in line with the view of the SME’s in the bigger picture; as entities which are the backbone of the country’s economy. The fundamental goal for the small and medium entrepreneurs is to make profits and ensure smooth running of their businesses. Similarly, financial institutions should aim to support these entities and give them as much audience as they give large firms.

The examination of small and medium business entrepreneurs should help financial institutions understand why the SME’s do not make use of their services and what they need to do in order to attract them to use their facilities. The view of examination of SME’s is to facilitate better management practices and education of the entrepreneurs of the importance to use loans from financial institutions to help them expand their businesses and better they performance.
5.3 Recommendations

SMEs are the backbone of all economies and are a key source of economic growth in advanced industrialized countries as well as in emerging and developing economies. They should therefore be able to operate consistently and become sustainable in the long run. This study provides the following recommendations to the challenges faced by SMEs in accessing finances from financial institutions:

1) **Publication of Commercial Bank rates & charges**: There is no credit information sharing in Uganda. This is attributed to banks being more interested in maintaining their dominance of certain market niches than sharing information. There is therefore a need for commercial banks to promote transparency by regularly publishing bank charges and interest rates in the print media, as is done in Kenya. This is likely to increase competition and thus ultimate reduction in interest rates.

2) **Land Policy Reforms**: The Government of Uganda should put a comprehensive national land policy to guide land usage and also to streamline land ownership. The current constitutional provisions have not adequately solved the historical conflict between mailo landlords and tenants, which has made tenants unable to use their land as collateral in banks because they have no land titles, the titles are with the mailo landlords who are the owners of the land.

3) **Expand Leasing outside the major city**: There is a need to encourage financial institutions to extend the non financial packages of leasing to the other towns outside Kampala. Leasing is a medium term finance option for acquiring equipment, business vehicles, plant and machinery by an entrepreneur through the bank. The bank purchases the equipment that is selected by the entrepreneur, the entrepreneur then pays a usage fee for an agreed period of time, at the end of which the ownership of the equipment is then transferred into the entrepreneurs’ business name or it is depreciated and sold to a third party by the bank.

4) **Credit Reference Bureaus**: The Government of Uganda should support and strengthen the existing Credit Reference Bureaus which will enable lenders to make informed decisions about borrowers thereby reducing lending risks (thus improving access to finance).

5) **Gender Issues**: There is need for women empowerment considering the fact that the majority of small businesses are owned and run by women. Commercial banks perceive
women as high risk borrowers and this is due to the property ownership rights which limit women’s ability to own land that is very essential as a security (collateral) tool for them to access finance.

5.4 Areas of further research

- The impact of information technology on performance of SMES.
- Budgetary control and performance in businesses
- Planning and monitoring of budgets
References


APPENDICES

QUESTIONNAIRE

Dear respondent;

You have been selected to participate in this study which seeks to find out the factors affecting access of financing by Small and Medium Enterprises from various financial institutions and their performance. The study is entirely academic and the response will be treated with a lot of confidentiality. The results of this study could be useful to both Small and Medium enterprises and also financial institution on how to serve the needs of SMEs better.

Please feel free to tick in the most appropriate box and where possible give your view by writing in the blank spaces provided.

PART A: BACKGROUND INFORMATION

1; Name of the respondents................................................................. (Optional)

2: Age:

- Below 20 years 
- 21 – 30 years
- 31 – 40 years
- above 40 years

3: Gender

- Male
- Female

4: Marital status

- Married
- Single
- Other

5: What is the name of your business? (Optional)

6: How many employees do you have?

- 0 – 5
- 5 – 10
- 10 – 15
- 15 and above

7: location of the enterprise?
8: Duration of business

2 years and below □  2 - 4 years □  4 years and above □

9: What form / type is your business?

☐ Sole proprietorship
☐ Partnership
☐ Limited company

PART B: ACCESS TO FINANCE BY SMEs:

1: Which financial institutions are in your location?

☐ MFIs
☐ Banks
☐ Government
☐ Other (specify) .................................................................

2: From which financial institution have you ever sourced funds?

☐ MFIs
☐ Commercial banks
☐ SACCOs
☐ Government
☐ Merry Go Rounds

If you have not sourced funds

Why haven’t you applied?

☐ My business is financially stable and does not require any financial assistance
☐ The process is too tedious and I have never bothered
☐ Very high interest rates on loans are charged
☐ High collateral requirements

3: What was the purpose of the fund application?
4: Prior to this funding, what was your major source of financing for your business?

☐ Venture capital
☐ Donations
☐ Personal savings

5: Financial assistance from financial institutions is an important element for growth and sustainability of your venture.

☐ True
☐ False

6: Rate the levels to which the following aspects limit fund accessibility.

(1) Strongly limit  (2) moderately limit  (3) does not limit  (4) not sure

<table>
<thead>
<tr>
<th>Aspect</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profitability</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital invested</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit worth</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Period of operation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corruption by agents</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collateral</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry sector</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

7: Under the following conditions, rate the extent to which SMEs are viewed as risky ventures by financial institutions.

Strongly agree  (2) Agree  (3) Neutral  (4) disagree  (5) strongly disagree

<table>
<thead>
<tr>
<th>CONDITIONS</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uncertain competitive advantage faced by SMEs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less equipped in terms of human and capital resources</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inadequate accounting systems</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uncertain repayment capacity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
To what extent do you think the following statements apply in your business concerning financial institutions?

(1) Strongly agree      (2) Agree       (3) Neutral        (4) Disagree       (5) strongly disagree

<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial institutions have made an effort to reach SMEs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SMEs have great awareness of financial assistance from financial institutions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial institutions only target large firms</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial institutions only aim at making profits from their services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Terms and conditions set by financial institutions could change with changes in business environment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

PART C: PERFORMANCE OF SMES

1: Which of the following factors have a direct influence on the performance of your business?

<table>
<thead>
<tr>
<th>Factor</th>
<th>Important</th>
<th>Neutral</th>
<th>Less important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to finance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of finance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Access to land</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entrepreneurial skills</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government regulations</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2: How would you rate your enterprise performance according to the following condition?

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Time</th>
<th>High</th>
<th>Average</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production volume at</td>
<td>Start up</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Present</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment at</td>
<td>Start up</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Present</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales volume at</td>
<td>Start up</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Present</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit level at</td>
<td>Start up</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Present</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
PART D: RELATIONSHIP BETWEEN ACCESS TO FINANCE AND PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES.

1: There is a relationship between access to finance and performance of SMEs

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Not Sure</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
</table>

2: How would rate the performance of your business if you had access to finance,

<table>
<thead>
<tr>
<th>items</th>
<th>Very satisfactory</th>
<th>Satisfactory</th>
<th>Not changed</th>
<th>Fairly deteriorated</th>
<th>Greatly deteriorated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market share</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profitability</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Job creation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital base</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2: If your business is to improve what aspects of financial institution needs to be addressed?

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3: Are there other factors that have inhibited the performance of your business other than access to finance? If yes mention the ones you are aware of

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Letter of introduction

MAKERERE UNIVERSITY
P.O. Box 7062 Kampala
P.O. Box 14196 Kampala
Website: http://www.distance.mak.ac.ug

COLLEGE OF EDUCATION AND EXTERNAL STUDIES
School of Distance & Lifelong Learning
Department of Open & Distance Learning

Your Ref:
Our Ref:

February 15/2011

To: JIADE. Fu...Supermarket

Dear Sir/Madam

RE: INTRODUCTORY LETTER

This is to introduce to you

Mwariga Patrick
Reg No: 071K/3330/EXT

Who is a student of Makerere University School of Distance & Lifelong Learning
College of Business & Management pursuing BCOM (EXT) final year.
He/She wishes to carry out a purely academic research in your Company under

Topic: ACCESS TO FINANCIAL PERFORMANCE OF SMEs

For the award of Bachelor's Degree
Any assistance rendered will be highly appreciated.

I.A.C.E.

SIGN: Nazarige Kyakirira (MR)

BCOM EXT RESEARCH COORDINATOR

VISION: To be the leading institution for academic excellence and innovation in Africa