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Examination of Access to Credit and Performance of Small and Medium Enterprises in Bushenyi District, Uganda

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Date Published: ABSTRACT

31 October 2024 The study examined access to credit and the performance of small and medium enterprises in Bushenyi District, Uganda. The study was guided by the following objectives: to examine the extent of access to credit and the performance of small and medium enterprises in Bushenyi District. SMEs have been seen as uncommon supporters of the Ugandan economy because they both organize and work for innovative considerations. In any case, their execution and development are regularly ruined by different challenges. For the methodology, surveys and interviews were utilized to gather essential information, whereas diaries, books, and the web were sources of auxiliary information. The information was secured over five years, extending from the year 2019 to 2024. The relapse show has an R of 0.724, which shows a solid positive relationship between the factors. The coefficient of assurance, R square, demonstrates how well the information fits within the measurable range and how effective the fit is in clarifying the variety of the information. In this study, 52.4% of the variance within the dependent variable is explained by the independent factors, supporting financial services that are more inclusive and sensitive to SMEs. The areas of the study were challenged by the barriers and constraints facing SMEs in accessing credit from credit facilities. It was also limited to accessing the respondents since they were located across the Bushenyi District. Through creating an empowering environment for SMEs, the bridge that exists between huge and small companies can be limited. This may also be accomplished through segmenting NSE for SMEs posting and defining the administrative system that's inviting SMEs.

Keywords:

Credit,
Performance,
SME

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INTRODUCTION

Small and medium-sized businesses (SMEs) are acknowledged on a global scale as essential drivers of innovation, employment, and economic progress (M. Chowdhury & Alam, 2017). However, because of the strict lending standards, high interest rates, and lack of collateral, many SMEs have a difficult time obtaining funding (Chilembo, 2021). The loan gap is made worse by financial institutions' common perception of SMEs as high-risk borrowers. Despite these obstacles, nations with strong financial systems and pro-business legislation have made progress in facilitating SMEs' access to financing (Cavoli et al., 2024). Initiatives like digital lending platforms, microfinance, and credit guarantee programs, for example, have proven to be successful in closing the financial gap (Waniak-Michalak et al., 2020). SMEs in these areas are therefore able to attain greater performance levels, characterized by enhanced profitability, and sales growth.

SMEs are essential to advancing economic growth and eradicating poverty in Africa. Access to financing, however, continues to be a major obstacle to their development and effectiveness (Mapunda, 2021). Numerous African countries have undeveloped banking systems and other credit saving organizations like Turyasingura and Moses (2023), restricted access to financial services, and a high degree of informality in the financial sector as discussed by Abisuga-Oyekunle et al. (2020). SMEs frequently find it difficult to satisfy the strict restrictions set by regular banks, which forces them to turn to unofficial funding sources (Sidek et al., 2020).

Their capacity to make investments in new technology, grow their business, and become more competitive is hampered by this lack of official credit. However, there are encouraging trends that are progressively expanding SMEs' access to financing, like the emergence of fintech products and mobile banking. In an effort to maximize SME financing's contribution to economic growth, governments and international organizations are also coming to understand how important it is to assist SME financing through financial programs and policy initiatives (Arthur et al., 2021).

In Uganda, SMEs play a critical role in the economy, contributing significantly to GDP and employment. According to the Uganda Bureau of Statistics (2019), SMEs contribute approximately 20% to Uganda's GDP, employing around 45% of the total workforce, highlighting their vital role in job creation (UBOS, 2019). However, access to credit remains a significant challenge, with high interest rates ranging from 20% to 24%, much higher than the global average (Pozhidaev, 2020). This, combined with stringent lending criteria and the lack of tailored financial products, limits SMEs' ability to secure necessary financing. Most SMEs operate informally and lack the required documentation and collateral to access traditional bank loans, leading to financial exclusion (Uganda Investment Authority, 2017).

Monetary organizations have data on credit value and support against potential losses whereas, on the other hand, borrowers need such kind of data. Asset Based Hypothesis clarifies that competitive advantage of a firm pivots on inside assets (Abisuga-Oyekunle et al., 2020). Concurring with

this hypothesis, SMEs' need for funds contributes to their disappointment since other firms with superior assets have a competitive advantage. In expansion, SMEs without appropriate assets will fall flat to fulfill both representatives and their clients since they will need the advantage of superior assets.

Batrancea et al. (2022) pointed out that SMEs are more hazardous since they are considered to have a lower survival rate and huge instability in their working execution and development. As a result of the above reasons, they are denied credit, endure credit apportioning, or allow credit at higher interest rates. An overview by VCCI conducted in creating nations uncovered that as it were 30% out of all the SMEs that look for subsidizing from commercial banks succeed. Those that succeed are constrained to pay higher interest rates compared to huge ventures.

In 2019, there were a significant number of SMEs on the landscape, reaching a total of 1.2 million. The private sector held a dominant market share of 99.98%. The dynamic ecosystem of SMEs in Algeria has made a significant contribution to the creation of almost 2.6 million jobs, establishing itself as the principal catalyst for employment growth (Lamine & Brahim, 2024). SMEs play a crucial role in the economy and are receiving significant attention from Algerian authorities as they grapple with the effects of globalization (Kyabarongo et al., 2022; Moses et al., 2023; Moses & Bosco, 2023).

Methodology

The study area is Bushenyi District, located in the Western Region of Uganda, approximately at coordinates 0.5347° S latitude and 30.1756° E longitude (Ainembabazi, 2022). Known for its vibrant economic activities, Bushenyi has a diverse array of SMEs spread across sectors such as retail, agriculture, and services. The respondents represent a heterogeneous group, varying in age, gender, and business types, reflecting the broad SME landscape. Gender distribution is mixed, with a notable presence of both male and female business owners. Age

ranges from young entrepreneurs to established older business owners, highlighting generational perspectives on business practices and financial access. Access to finance remains a significant factor for growth, with varying rates of financial accessibility among enterprises; some SMEs have streamlined credit access, while others face challenges due to stringent lending criteria. This diversity among the SMEs and respondents provides a comprehensive view of Bushenyi's dynamic economic environment.

The research design used in the study was descriptive. Loomis and Maxwell's (2003) descriptive study design is an investigation that aims to precisely define the features of an individual, a group of individuals, or a phenomenon in the field of education. This suggests that the design merely explains the results and interpretation of what is already known, including beliefs, ongoing procedures, obvious consequences, and emerging patterns. Studying the existing linkages or situations is equally important. The sample size from the 21,610-person population was determined using Israel's pre-calculated table, yielding a sample size of 100 respondents for data collection and interviews.

$$n = \frac{N}{1 + N(e)^2}$$

n = Sample size

N= Population size

1 = constant

e = Level of precession 10

Therefore

N=21610

1= constant

e= 10

n=21610

1+21610 (0.1)²

n= 99.5

Therefore, **100** respondents were selected.

Focus group discussions and interviews were conducted as a means to collect qualitative data from community members' respondents. After collecting the data, it was reviewed for completeness, edited, and cleaned. This process included making follow-up calls to correct improperly filled questionnaires. The quantitative data from the questionnaires was coded and subsequently entered into the Statistical Package for Social Sciences (SPSS) software for analysis (Semusu & Turyasingura, 2023). This also included incorporating statements from the focus group discussions. The key informants from the SMEs included: 3 board members (BM), 2

advisory committees (AC), 3 supervisory committees (SC), 4 managers (M), 4 loan officers (LO), 3 internal auditors (IO), and 2 food and beverage managers in some hotels (FBM).

Results and Discussion

The survey covered a sample of 100 respondents, all of whom returned the questionnaires. This gave a response rate of 100%. This response rate is appropriate of below 50% shows that the data is inadequate for analysis, but if the response rate is 60%, it means that the data is good for analysis, and if the response rate is 70% or above, then the data is regarded as very good for analysis. The response rate was 100% because respondents filled in all the questionnaires.

Table 1: Multiple Regression model

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	53.285	2.996		17.785	.000
Access of credit	.329	.119	.176	2.762	.006
Performance of small and Medium Enterprises	.539	.077	.445	6.968	.000
Model summary					
R	R Square	Adjusted R Square	F Change	Sig. F Change	
.580	.336	.331	76.115	.000	

Multiple regression analysis was used to determine the combined effect of predictor variables on the dependent variable. Regression findings in Table 1 above revealed that access of credit and performance of SMEs predicated up to 33.1% (adjusted r square = 0.331) of the observed variance in SMEs performance. Performance of SMEs was found to be the most significant predictor of SMEs performance (Beta = 0.445, Sig = .000). This means that a positive change in SMEs leads to change in Performance. Access of credit was observed to be the least significant predictor of performance (Beta = 0.176, Sig = .006). This means that a positive change in access to credit leads to a change in performance.

From the interviews and focused group discussions that were held, it was found that SMEs face a variety of difficulties, and the major one is the high cost of borrowing. According to BM and

OI, *"The largest obstacle facing our SMEs is the high interest rates." Small enterprises find it extremely difficult to survive under such financial strain.*" Another participant echoes this idea, pointing out that tough credit restrictions prevent many potential business owners from expanding their operations: *"Access to credit is critical for business expansion, but the stringent collateral requirements lock out many promising entrepreneurs."* A third member underlined that *"we need more supportive policies from financial institutions to help SMEs access the funding they need to grow."* These statements highlight the urgent need for financial institutions to implement more supportive policies.

During FGD, the FBM recognized that mentoring programs play a crucial role in helping SMEs understand and meet credit standards, as these

programs can greatly improve the SMEs' capacity to obtain funding.

According to IO, SMEs struggle with maintaining proper financial records, which is a key barrier to accessing credit. Thus, improving financial management practices among SMEs could enhance their creditworthiness, and there's a need for financial institutions to consider more than just collateral when assessing loan applications.

During the FGD: LO, and IO said that more transparent communication about the credit process could help demystify it for SMEs. Also, ACC suggested developing specialized training for SMEs on how to prepare successful loan applications.

Discussion of the Findings

The multiple regression analysis reveals that both access to credit and SME performance account for 33.1% of the variance in SME outcomes with SME performance showing a stronger predictive effect. This indicates that while access to credit positively influences SME success, other factors beyond credit availability may play a larger role in enhancing performance. Previous studies align with this finding, such as Sophocleous (2019) who found that credit access alone is insufficient for business growth unless coupled with sound financial management. Conversely, studies like those by Kyabarongo et al. (2024) suggest that easy access to credit can be a critical driver for SMEs' growth, emphasizing the varying significance of credit based on regional contexts. The significant influence of SME performance on outcomes indicates that factors such as operational efficiencies, market access, and managerial skills may have a stronger influence than credit alone. These findings resonate with studies by Tuffour et al. (2022), who concluded that management practices and financial literacy considerably impact SME growth. However, some studies, like those by Chowdhury et al. (2022), argue that credit is foundational to all other SME success factors, implying that limitations in credit access inevitably constrain business performance. This discrepancy points to

an empirical gap in understanding the conditions under which credit access impacts SME success across different regions (Moses et al., 2023).

Additionally, the study highlights the need for further research into non-financial factors influencing SME growth, such as managerial experience, market dynamics, and resource allocation, as these were outside the current study's scope. Anwar et al. (2020) propose that financial literacy and entrepreneurial experience significantly predict SME success, further emphasizing the need to consider these variables in future research. Exploring these elements would provide a more comprehensive understanding of the drivers of SME growth beyond credit access alone. An empirical gap also exists in understanding the long-term effects of credit access on SME performance, as this study provides a cross-sectional view. Additionally, research into regional policy differences, such as interest rate regulations and credit access criteria, could help contextualize these findings further. Expanding the study to include other performance metrics, like profitability and employment generation, could deepen insights into how credit influences SME growth comprehensively.

Contribution of the work and novelty

This significantly contributes to several Sustainable Development Goals (SDGs). Primarily, it addresses SDG 8 (Decent Work and Economic Growth) by highlighting the barriers SMEs face in accessing credit, which is crucial for their growth and contribution to the economy. By identifying these barriers, the study advocates for improved financial inclusivity, fostering economic growth and job creation. Additionally, the findings support SDG 9 (Industry, Innovation, and Infrastructure) by underscoring the need for innovative financial solutions and infrastructures that facilitate SME growth. Lastly, the study indirectly supports SDG 1 (No Poverty) by promoting enhanced credit access, which can lead to poverty reduction through increased entrepreneurial activities and improved livelihoods.

Uganda Vision 2040 aims to transform the country from a low-income to a competitive upper-middle-income status. The study contributes to this vision by addressing one of the critical obstacles to economic transformation: the accessibility of credit for SMEs. By providing a detailed analysis of the challenges SMEs face and suggesting improvements in financial policies and practices, the study supports the creation of a more conducive environment for business growth and innovation. Enhancing SME performance through better access to credit aligns with the Vision 2040 goal of fostering a vibrant private sector that drives economic development and job creation.

The National Development Plan III (NDPIII) of Uganda emphasizes industrialization, job creation, and inclusive growth. The study's focus on SMEs directly supports NDPIII's objectives by highlighting the financial barriers that impede SME growth and suggesting ways to overcome these obstacles. By advocating for improved credit access and financial support mechanisms, the study contributes to creating a more inclusive financial system that can bolster SME performance. This, in turn, can lead to increased industrialization, higher employment rates, and a more resilient economy, all of which are key goals of NDPIII.

The study's originality comes from its narrow emphasis on SMEs in the Bushenyi district, which offers a detailed knowledge of the particular difficulties encountered in this area. This research, in contrast to larger studies, provides targeted insights that may result in more efficient and customized policy responses. A thorough understanding of the problems at hand is also provided by the study's blend of qualitative data from numerous stakeholders, such as managers, loan officers, advisory committee members, and board members. This multifaceted method adds depth to the research and emphasizes how policy, administrative, and financial impediments to SMEs' access to credit are intertwined.

Conclusion

From the discussion, the major factor affecting access to financing is the high and costly interest rates. SMEs in the study reported significant financial constraints, which were attributed to a financing gap between large and small enterprises. This gap underscores the disparities in funding accessibility, with smaller businesses facing more considerable challenges in securing financial resources compared to their larger counterparts. The study's findings indicate a direct correlation between the size of an enterprise and its financial performance. Smaller businesses experience greater difficulty accessing funds, which adversely affects their financial outcomes. As such, the smaller the business, the more pronounced the financial challenges it faces. This relationship highlights the need for tailored financial policies and support mechanisms to bridge the financing gap and enhance the financial performance of SMEs, thereby fostering economic growth and development in the region.

Policy recommendations and Areas for further action

Financial institutions should consider reducing interest rates and easing collateral requirements to make credit more accessible for SMEs, as high borrowing costs and stringent requirements currently hinder business growth. Establishing SME-focused mentorship programs could strengthen financial management practices, increasing SMEs' ability to meet credit standards and improving creditworthiness. Additionally, developing specialized training on loan application processes and credit requirements could demystify the credit process, enabling more SMEs to successfully secure funding. Policies aimed at supporting SMEs in maintaining transparent financial records would further enhance their access to finance. Finally, tailored policies addressing the financing gap between smaller and larger enterprises are essential, as smaller SMEs face disproportionate financial constraints. These measures could support economic growth, promote business expansion, and foster inclusive development across the region's SME sector.

One area for exploration is the impact of interest rate fluctuations on SME growth and sustainability, the alternative financing models, such as microfinance or community-based lending schemes, the role of financial literacy and record-keeping practices on credit accessibility, particularly focusing on how improving these practices may boost creditworthiness among SMEs.

Limitation

The limitations of the study are in the data and methodology. The data lacks a comprehensive survey of access to credit and the performance of SMEs. Hence, the data limited the study to time series or panel analysis, which would have given better results. Also, endogeneity is a problem with primary data that is likely to affect the results. Furthermore, the study used a descriptive approach, where not all variables that could help explain credit access by SMEs were fully exhausted. However, these limitations do not invalidate the findings of this study.

Conflict of interest

There is no conflict of interest

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