THE CONTRIBUTION OF COMMERCIAL BANKS TOWARDS THE GROWTH OF SMEs IN MBALE CENTRAL MARKET

by

BOKE Lilian Debola
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DEDICATION

This work is dedicated to my beloved mother and husband for their sacrifice toward my success without forgetting my supervisor Mr. ODOKI RICHARD for more support, encouragement, knowledge.

I further dedicate this work to all my friends and relative who supported me morally and financially to the completion of these works.

May the Almighty God bless you?

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LIST OF ABBREVIATIONS

BOU	Bank of Uganda
UIA	Uganda Investment Authority
UNCTAD	United Nations Conference on Trade and Development
USAID	United States Agency for International Development
SACCOS	Savings and Credit Cooperation Societies
SME	Small and Medium Enterprises

ABSTRACT

The study was the contribution of Commercial Banks towards the growth of SMEs in Mbale Central Market. The study took three specific objectives and these were examine to examine the different forms of services commercial banks offer to SMEs, the challenges faced by SMEs while acquiring services from commercial banks and to examine the contributions of commercial banks towards the growth of SMEs in Uganda.

The study employed a descriptive research design where both qualitative and quantitative approaches were used. The study took a sample size of 24 respondents out of a population of 25 respondents. Key informants were SMEs managers. The study applied two research instruments; these were questionnaires and interview guide. Study findings indicated that the major forms of services commercial banks offer are extension of loans, financial advise, deposit services, extend corporate cards and offering of Bank statements. As far as the challenges faced by SMEs while acquiring services from commercial banks are concerned, it was found that there is lack of collaterals security, limited information, limited financial skills, competition and scarcity of long term financing and it was discovered that the contributions of commercial banks towards the growth of SMEs in Uganda are as follows; offering loans, there are available from commercial banks, access to capital and accurate loans and the availability of finances.

It is therefore recommended that commercial banks should endeavor to avail financial information to the public always on time and increment in awareness on the financial services is another strategy that enhance the reduction information asymmetries among SMEs, SMEs owners should make up groups inform of SACCOs so that they have collateral security in securing credit from commercial banks and Training of SME owners on risk management for example financial risk management will enhance on the performance of small and medium enterprises in Uganda.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter presents the background to the study, problem statement, objectives of the study, research questions, scope of the study, and significance of the study and definition of operation terms

1.1 Background to the Study

Undoubtedly, access to finance from commercial banks is essential for the ongoing and sustainable growth and profitability of small and medium enterprises sector (SMEs), particularly retail businesses, through its role in enabling the creation of new businesses and nurturing the innovation process as well as stimulating the growth and development of existing businesses, which in turn, boost national economic growth (Abdul Saleh, 2013). Indeed, in the right business atmosphere, SMEs can grow into large firms, changing the game locally, carving their forte globally. This process starts with supportive administrations that create the right policy milieu, and then grows from there (ADB, 2012). In fact, in India, Andhra Pradesh state authorities first began providing the IT sector with incentives in 1998. As a consequence of that, the city of Hyderabad presently anchors a flourishing futuristic industry whose many SMEs and other players have changed the face of India’s fifth-largest state (Abdul Saleh, 2013).

According to data from the World Bank, many of the countries in Sub-Saharan Africa report a high number of SMEs in the economy (World Bank, 2011). Unfortunately, the cost of operating these businesses remains high in general as Sub-Saharan Africa is still ranked as the region in the world where it is most difficult to do business. However, the business environment in several African countries has improved substantially over the last decade (World Bank, 2011). Moreover, in many African countries, the retailing activity is distributed widely among a large number of more or less formal SMEs, while e.g. in China, economic activity is to a much larger extent organized in larger entities, both within manufacturing, agriculture and services (Fjose, 2010).

Its common knowledge that credit availability, accessibility and above all affordability is crucial in driving the engine of Small and medium-sized enterprises (SMEs) not only in Uganda but worldwide. However, it is important to note that credit accessibility has increasingly become a challenge in Uganda due to the high lending rates by the commercial banks standing in the range of 23% to 25% way higher than the central bank rate (CBR) standing at 14% (Bank of Uganda, 2016). Furthermore, Lending rate has been left to be determined by the market forces of demand and supply which with no deliberate action by the central bank to lower these rates may pause a big challenge to the operations of the SMEs in Uganda.(CSBag report, 2016)

1.2 Problem Statement

According to enterprise-level data collected by the World Bank (2016), SMEs in Sub-Saharan Africa are more financially constrained than in any other developing region. Only 20 percent of SMEs in Sub-Saharan Africa have a line of credit from a financial institution compared, for example, with 44 percent in Latin America and the Caribbean, and only 9 percent of their investments are funded by banks versus 23 percent in Eastern Europe and Central Asia. SMEs face many problems both at start up and their growth phase in many developing countries. Lack of proper skill and the inability to access credit has led to a high failure rate of SMEs in Africa, approximately 85 in every 100 enterprises fail. This has created a hindrance to most small and micro enterprises growth because they cannot access fund easily and this has made them source and obtain finance from family and friends which is an informal source while medium or large businesses can easily access funds from the bank and other financial institutions who will willingly lend them money because they can easily meet the conditions that they have meet. Moreover, numerous SMEs owners (91%) raise their own start-up capital compared to only 9% who take a loan to start the businesses in Uganda (National-Small-Business-Survey-report, 2015). From the predicament facing SMEs in accessing finance, the study seeks to examine the contributions of commercial banks towards the growth of SMEs, a case study of Mbale central market.

1.2 Objectives of the Study

1.3.1 General Objective

To examine the contributions of commercial banks towards the growth of SMEs in Uganda

1.3.2 Specific Objectives

a) To examine the different forms of services commercial banks offer to SMEs in Uganda
b) To examine the challenges faced by SMEs while acquiring services from commercial banks
c) To examine the contributions of commercial banks towards the growth of SMEs in Uganda.

1.4 Research Questions

a) What are the different forms of services commercial banks offer to SMEs in Uganda?
b) What are the different challenges faced by SMEs while acquiring services from commercial banks?
c) What are the contributions of commercial banks towards the growth of SMEs in Uganda?

1.5 Scope of the Study

1.5.1 Content Scope

The study will be limited to the contributions of commercial banks towards the growth of SMEs. The independent variable is contributions of commercial banks and the dependent variable is growth of SMEs. The objectives of the study bank loans, deposit saving services and advisory services of commercial banks influence on SME growth

1.5.2 Geographical Scope

The study will be carried out in Mbale central market covering a number of SMEs who deal in different industries from fashion to fast moving consumer goods. The market is located along Cathedral Avenue opposite Emman supermarket. Mbale central market is located in Mbale municipality Mbale district. Which is located in Eastern region of Uganda?

1.5.3 Time Scope

The study will take a time frame from 2016 to 2019. A time period is 3 years because there has been an increment in SMEs failure in Uganda within this period. Finance inaccessibility has been pointed out as the major failure of SMEs in the country

1.6 Significance of the Study

To Managers;

The study is valuable to the management of commercial banks as they will be able to uncover the causes of failure of the Small and Medium Enterprises in repayment of their loans and effective ways of financing the Small and Medium Enterprises, as well as taking appropriate measures against risks facing the Small and Medium Enterprises.

Also, the study will be of importance to small and medium enterprises as it will enable them to know what indicators to measure to gauge them for success. These enterprises will also learn of what is expected of them as they interact with financial institutions.

To Policy Makers;

Financial policy makers and the government will also benefit from the study as they will know the relationship between the two sectors better and what is required from each for success. This would enable them formulate better policies for a better financial economy. Better performance by these sectors will also lead to more tax revenues and more employment opportunities.

To academicians;

It will also be of significance to researchers as it will provide basis upon which further studies will be carried out on broad subjects on the relationship between the Commercial Bank Small and Medium Enterprises financing and non-performing loans and it will also provide reference for scholars

1.7 Definition of operation terms

Commercial bank; Refers to financial institution and a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly or through capital markets (Ono, 2005).

Collateral security: Collateral is a borrower's pledge of specific property to a lender, to secure repayment of a loan. The collateral serves as protection for a lender against a borrower's default (Newbery, 2006).

Financial information; Financial information provides information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions (Millinuex, 2007)

Small Micro Enterprise: Currently there are three broad parameters which define SMEs micro-entities are companies with up to 10 employees; small companies employ up to 50 workers, whilst micro-sized enterprises contain up to 250 employees (Keister,2008).

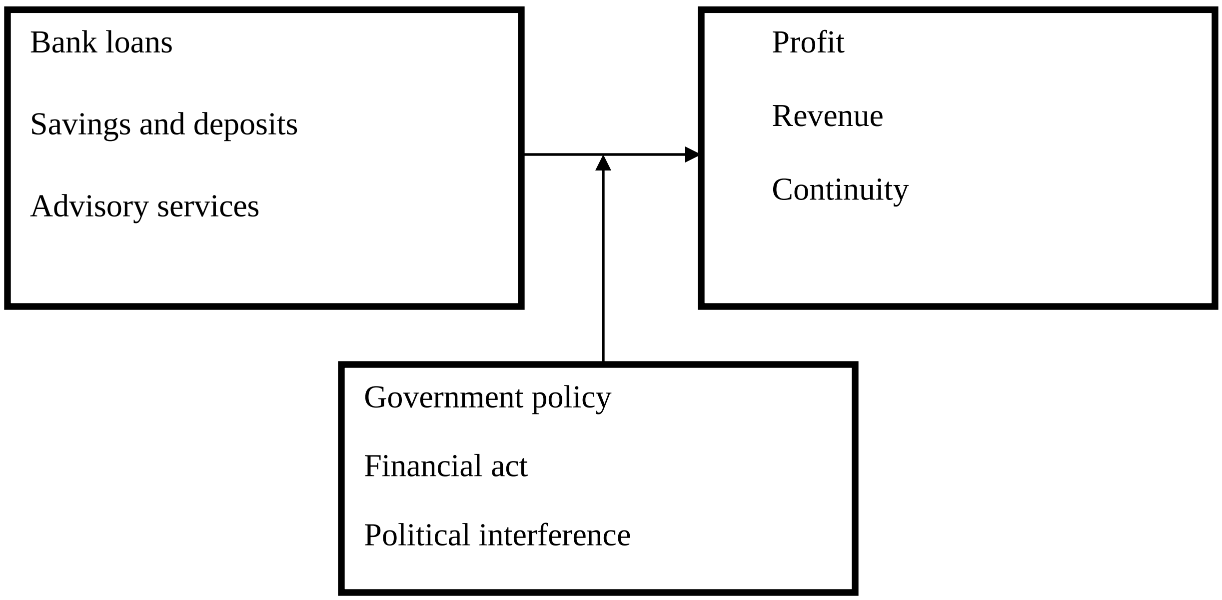
Interest Rate; also known as the Cost of Finances (COF) is the cost and interest and other charges involved in the borrowing of money to build or purchase assets.

1.8 Conceptual Framework

The conceptual framework shows the relationship between the independent variable and the dependent variable

Independent variable **Dependent variable**

Commercial Bank Services **Growth of SMEs**



Source: modified and adopted by the researcher from Everest Turyahikayo report

From the conceptual framework, contribution of commercial banks is the independent variable measured in terms of the commercial bank services which are bank loans, savings and deposit services and the advisory services on investments. Whereas these services are offered by commercial banks, they are enhanced by moderating variables like government policy, where priority is given to SMEs like low interest rates to enhance their growth and the economy at large, financial act which is regulated by the central bank inform of credit reference bureau and sometimes political interference affect SMEs of utilizing commercial services. When the commercial bank services and moderating variables are applied appropriately they lead to increase in profits, revenue and sustainability of the enterprise.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter consists of literature on the contribution of commercial bank towards the growth of SMSs related theories and the review of the literature relating to the objective of study and condition of the review during the study the researcher will be primary looking towards theoretical framework, concept of the contribution (loan, deposit, advisory services) and the growth of SMS (profit, revenue, continuity) in line with specific objective and conclusion.

2.1 Theoretical Review

Until now, there is no single and unique theoretical model that explains the financing of SME-s, which influences the performance of investments, their growth and development. The theoretical principles underlying capital structure can generally be describes in terms of the static trade off theory by Modigliani and Miller (1958), the pecking order theory (Myers & Majluf, 1984), managerial theory of investments (Marris, 1963; Baumol, 1967), agency theory by Jensen and Mackling (1976) and extended by Stiglitz and Weiss (1981).

2.1.1 Neoclassical theory of Investments

According to neoclassical theory of investments (M-M), which affirms the attitude on the irrelevance of the capital structure for the value of the firm, internal and external sources of financing are perfect substitutes. In the world of the perfect functioning of the market, the choice between financing through capital or debt is irrelevant. Therefore, the cost of capital and the market value of the firm are independent from the value of the firm (Modigliani & Miller,

1958). The theory of M-M is based on the following premises: there are no taxes, there are no transaction costs, there are no bankruptcy costs, the equal cost of debt for companies and for investors, symmetrical information in the market, there is no influence of debt in the profit of the company before interest and taxation. Modigliani and Miller

(1958) modify their theory by introducing the tax on profit. In this case, the value of the firm is positively related to debt. After introducing the tax on profit in their analysis, they ascertain that the financial leverage increases the value of the firm, since the interest decreases the tax base (it is deduced from the business profit), and, therefore, we have savings which have the value of the interest. From this ascertainment, the value of the firm grows bigger, as the financial leverage increases, which means that the highest value of the firm is achieved if the burden of debt becomes 100%. In this way the firm attains absolute advantage, given that it is defended from taxes.

Scott (1972) emphasizes that 100% tax shield does not exist in reality, because of distress costs. Debt leads to legal obligation to pay interest and principal. If a firm cannot meet its debt obligation, it is forced in to bankruptcy an incurs associated costs (Fatoki & Asah, 2011). This theory, in fact, does not take into the consideration all the other factors, such as: the costs of the bankruptcy of the firm, the costs of the agency, the impact of debt in profit, the asymmetry of information, and, therefore, this theory is challenged by other theories (Harris & Raviv, 1991).

2.1.2 Static Trade Theory

Thus, the static trade off theory, which is based on the M-M theory and is its complementary, except savings from the tax on profit, incorporates into the discussion also the cost of bankruptcy, such as: judicial taxes, attorney costs, administrative costs, and, also, the agency costs (the firms managers damage the interests of the creditors by working in the interest of shareholders), and this can reduce the value of the firm (Jensen and Mackling, 1976).This theory is, in fact, the dominant theory regarding the determination of the financial structure of the firm, and it is founded on the premise that it is the firm that chooses how much it will be financed from debt, and how much from the capital, by balancing the cost of profits. According to this theory, the optimal level of the structure of capital is the one which equates the profit and costs from debt.

2.1.3 Pecking order theory

According to pecking order theory, the firm initially prefers internal sources of financing to external ones, and, regarding external sources, they prefer debt to capital (Donaldson, 1961). Thus, initially we have the use of accumulated profit, amortization, debt, and, finally, the equity capital. According to this theory, the firms finance their investment requirements based on a hierarchic order. This can direct also to existence of the asymmetry of information between managers (insiders) and investors (outsiders). As a result of this, managers have more information then investors (Myers & Majluf, 1984). Based on the agency theory, Stiglitz and Weiss (1981) present the problem that, as a consequence of asymmetrical information, occur between managers and shareholders, on one hand, and the problem among shareholders, managers and creditors, on the other. They argue that only SME-s knows the real financial structure of their own, the real strength of their investment projects and the tendencies for settling up the debt, and, therefore, the firm possesses superior private information (Mazanai & Fatoki, 2012).

2.2 Overview of the Main Concepts

2.2.1 Contribution of Commercial banks

Commercial Banks have always played an important position in the country's economy. They play a decisive role in the development of the industry and trade. They are acting not only as the custodian of the wealth of the country but also as resources of the country, which are necessary for the economic development of a nation. (Money matters article, 2019)

Banks play an important role in capital formation, which is essential for the economic development of a country. They mobilize the small savings of the people scattered over a wide area through their network of branches all over the country and make it available for productive purposes. Now-a-days, banks offer very attractive schemes to attract the people to save their money with them and bring the savings mobilized to the organized money market. If the banks do not perform this function, savings either remains idle or used in creating assets, which are low in scale of plan priorities. The banks help in the development of the right type of industries by extending loan to right type of persons. In this way, they help not only for industrialization of the country but also for the economic development of the country. They grant loans and advances to manufacturers whose products are in great demand. The manufacturers in turn increase their products by introducing new methods of production and assist in raising the national income of the country (money matters article,2019)

2.2.2 Growth of SMEs

Before looking at growth from the perspective of its inherent challenges and the strategies for managing it effectively, we should understand why it is important to put in place the necessary conditions for SMEs to grow. The growth of SMEs is one of the main keys to an economy's vitality. SMEs are known to have a major role in creating wealth, given their place in the economy. In Canada, as in many other countries, almost all businesses are SMEs.2 Moreover, 71% of the jobs created in the private sector over the last 10 years can be attributed to the activities of SMEs. Consequently, it comes as no surprise that governments seek to maintain a business climate conducive to the birth and growth of SMEs. The measures most often taken for this purpose include reducing administrative burdens, introducing tax measures that promote growth and ensuring access to financing.(BDC, 2015)

Revenue, profit and jobs are the three dimensions most often cited when determining to what degree an SME is growing. The entrepreneurs interviewed for our survey and the other sources consulted all view growth from one or more of these perspectives. Accordingly, for the purpose of this study, we have decided to focus on the following criteria: To be deemed to be growing, a business must have seen an increase in its revenue, profit or workforce in each of the last three years without having experienced any decline in any of these areas. Average annual growth of 5% to 19.9% will be considered "sustained growth," with average annual growth of 20% or more considered "strong growth. "Based on these criteria, our survey showed that 12% of Canadian SMEs are experiencing strong growth, and 29%, sustained growth. However, six out of 10 SMEs (59%) showed weak or zero growth, or even negative growth, over the last three years. (BDC, 2015)

2.3 Empirical review

2.3.1 The different forms of services offered by commercial banks to SMEs

Small and medium enterprises (SMEs) support the Kenyan economy in many ways, for instance, in the areas of employment, capital investment and technological innovation. When it comes to raising funds, however, SMEs often encounter various constraints not faced by major corporations. Financing available to SMEs is limited with only a small number having direct access to stock and bond markets (Andersen, 2004). Also, SMEs more often face difficulty in obtaining bank loans than do large corporations, partly because banks do not have as much management information about SMEs. First, the author Suder (2009) emphasize the importance of companies doing business with more than one bank during normal times and keeping those banks informed of one's financial and management conditions. This, the authors say, serves as a kind of "insurance," which companies secure loans elsewhere if their main bank refuses to lend. It has been pointed out, somewhat critically, that in Kenya even small businesses deal with many different banks whereas most of their Kenyan counterparts deal with only one or two. But given the above-described point made by the three researchers, it seems quite rational for a company to deal with many different banks (Sensory, 2010).

Wambua & Mugambi (2013) did a study on the effect of multiple banking on the performance of Small and medium enterprises in Mombasa, Kenya. The study analyzed the effects of diversity of Banking services, diversity of off-balance sheet items, diversity of relationship banking and multiple banks credit facilities on the performance of SMEs. A sample size of 258 SMEs was used, from which the business managers/proprietors were interviewed. The result of the study showed that multiple banking variables: multiple business accounts, diversity of off-balance Sheet.

The economic literature on the relationship between financial system development and economic growth is abundant and wide-ranging. The theoretical literature and the empirical evidence largely agree that the two are positively correlated, because the financial system plays a crucial role in reducing transaction and information costs, and facilitates efficient resource allocation. Nevertheless, some authors argue that the financial system's importance for economic growth has been overstated (Lucas, 1988; Chandavarkar, 1992).

The financial system has five main functions as an engine of industrial development. The first is to reduce risk through coverage, commerce and diversification (Bencivenga and Smith, 1991). This function is essential for technological innovation, which is typically a long, slow process (Audretsch, Werner and Mahagaonkar, 2009). The second function is to compile information and allocate resources. By reducing information asymmetries between lenders and borrowers, the financial system channels resources to the most productive sectors, encouraging economic efficiency and social well-being (Greenwood and Jovanovich, 1990; Habibullah and Eng., 2006). The third function is to mobilize individual and grouped savers looking to invest their resources. The financial system brings together the resources of numerous savers for allocation to large and productive projects (Sirri and Tufano, 1995). The fourth function is to reduce the costs of compiling the information needed to enforce contracts and oversee the behaviour of borrower firms. This function promotes capital accumulation and efficient resource allocation and, consequently, long-term growth (Levine, 1997; Rajan and Zingales, 1998). The fifth and final function is to facilitate specialization by reducing transaction costs. Specialization allows firms to concentrate on production activity, by giving them the space to improve their processes and products and thus increase their productivity (Stiglitz, 1989; Greenwood and Smith, 1997; Cooley and Smith, 1998).

Business Advisory Services includes market intelligence**,** domestic and export market development support**,** financial analysis and other benchmarking tools to improve operations, access to public and/or private sector financing**,** support for innovation, new technology and productivity networking and expert advice offered to SME's customers by the banks, business providing focused, specialized supplier referral services to SME's promoting industry-related trade shows, strengthening relationships with key stakeholders in Alberta, such as the provincial government, local industry associations and regional economic development offices, and collaborating with them on industry research and studies and trade missions between. The advisory services include best practices, timely workshops, management, liquidity management, data aggregation and management services, holistic models based on strategic business and risk objectives. These services are very useful and are value addition in business management and growth of SME's.

Credit services are important in increasing the liquidity of a business as this money can be invested in projects selected by the company. Studies done by Cooley & Quadrini (2001) and Cabral & Mata (2003), show that the growth of new small companies is hindered by restrictions
concerning finance and by the shortage of resources of diverse nature. The strategies of SMEs for finance are fundamental in explaining their growth, and this can be seriously hindered when companies are subject to considerable financial restrictions (Reid, 2003). Companies bear different costs of internal finance and external finance imperfections of the capital market (Stiglitz & Weiss, 1981). If the capital market was perfect, then all companies would have access to alternative sources of finance, and in this way internal finance and external finance would be considered perfect substitutes.

2.3.2 Challenges faced by SMEs in accessing services from commercial banks

The interconnection between the theory of social capital and challenges faced by SMEs in raising finance cannot be under-estimated. In the subsequent discussion, such an interconnection is revealed as inherently embedded in every challenge that SMEs encounter either consciously or unconsciously. The main focus here is on dissection of challenges such as; inadequate collateral to secure loans; information opaqueness; low level technical and management skills; lack of professionalism; competition; inability to afford long term financing among others.

Inadequate collateral to secure loans

Much of the SME financing is provided primarily by banks with loans being backed by credit guarantees or collaterals (Park (2006). The theory of social capital puts emphasis on social networks and reciprocity arising from such networks (Putman, 1995; Lin, 1999). In the absence of social networks, SMEs continue to grapple with scarcity of collateral to secure bank loans. Yet, there is evidence that inadequate collateral continues to cripple the financial needs of these SMEs (Apire 2003; Griffiths, 2003; UNEP, 2007). This is not to imply that SMEs do not secure loans from banks. In fact financial analysts like Kasekende & Opondo (2003) explain that some SMEs get loans from financial institutions. However, they reveal that when banks lend to SMEs, they tend to charge them a commission for assuming risk and apply tougher screening measures, which drives up costs for SMEs. In addition to collateral, SMEs are required to demonstrate that they have sufficient equity to contribute to their businesses, which many of them lack (Kiiru, 1991; Tomecko & Dondo, 1992; Oketch, 2000; UIA, 2008). Evidence from the Uganda Securities Exchange (USE) Brochure (2013) indicates that banks consider lack of collateral as high credit risk because of the transaction costs associated with availing credit to such SME companies. The same view is held by Kurokawa, Tembo, & Velde, (2008) and Ruffing (2003). There is no single explanation for lack of collateral by SMEs. What is clear is that limited social networks impede the ability of SMEs to secure non-collateral securities

Information opaqueness

No business enterprise can survive early mortality without communication and effective information management (Adler & Rodman, 1997; DE fleur& Everette, 1999; Maicibi, 2003). And there is no best way a business enterprise can propel to greater heights if information management is not channeled through social networks in which social capital is derived (Putman, 1995; Lin, 1999; Davidsson & Honig, 2003). In fact Petersen (2004) draws a distinction between hard and soft information, with hard information being more numerical and encompassing such items as financial statements, payment history and output numbers. While soft information is more qualitative and includes opinions, ideas, rumors, and statements of future plans. Much of what banks use in relationship lending and lending to more opaque small businesses would be characterized as soft information. However, SMEs have always been susceptible to information asymmetries (Zavatta, 2008; Oteh, 2010) or information opaqueness (Torre, Soledad, Peria & Schmukler, 2010). Opaqueness makes it is difficult for banks to ascertain if SMEs have the capacity to pay or willingness to pay if credit is extended to them. This is exacerbated by lack of established information network such as a credit reference bureau for tracking defaulters (Apire, 2003) and unverifiable history of past credits and lack of adequate historical records of the firm's transaction (Oteh, 2010). As Ruffing (2003) explains, lack of financial information increases the transaction costs of banks, or even worse makes it impossible to evaluate the chances of getting their money back if they lend SMEs. Owners or managers of SMEs sometimes keep three sets of books: one for the revenue authority, one for themselves and one for their ex-wives (Kasekende & Opondo, 2003). At the end of the day they do not know where their profit centres are (Namisango & Lubega, 2014). Other scholars DeYoung, Glennon, Nigro & Spong, (2012) argue that informational asymmetries between borrower and lender may limit the types of lenders and the lending technologies that may be used. In the same accord, Petersen (2004) contends that the amount of information available on firms will influence their access to capital and the structure of financial markets and financial institutions.

Low level technical and management skills

There is a strong interdependence between human capital, social capital and financial capital. Technical and management skills will determine the amount of social and financial capital generated for the SMEs. In human resource management studies, greater attention has focused on the importance of human capital as a perquisite for the survival of organizations including SMEs (Byars, & Leslie, 2000; Bernardin, 2003; Maicibi, 2003; Armstrong, 2006). Inadequate human capital hinders the ability of SMEs to strengthen their capacity to receive financing (Longenecker,Petty, Moore, & Palich,2006). This is because human capital provides management skills (Kasekende & Opondo, 2003; Tusubira & Nabeta, 2013), entrepreneurial skills (UIA, 2008) and knowledge of business opportunities (Tushabomwe, 2006). As such, SMEs lack good quality human capital which also means limited marketing and financial planning, lack of good business plans; poor business records and deficient corporate governance (Apire, 2003, UNEP, 2007). In addition, due to their small size, a simple management mistake is likely to lead to collapse of SMEs hence no opportunity to learn from its past mistakes (Bowen, Morara & Mureithi, 2009).

Lack of professionalism both internal and external

Ethics in business is an important element for the survival of enterprises regardless of size. One of the most important ingredients of ethics is trust. Ethics is closely related to professionalism. The theory of social capital underscores the importance of trust in social networks at both individual and organizational level (Bourdieu & Wacquant, 1992; Putman, 1995; Portes, 1998; Lin, 1999). However, there is evidence to the effect that SMEs in Uganda lack professionalism (Apire, 2003; Tushabomwe, 2006). This is exhibited in corrupt tendencies (Kurokawa, Tembo & Velde, 2008), disrespecting business contracts (UIA, 2008) and deliberate concealing of business records on transactions (Kasekende & Opondo, 2003). Other ethical issues include unfair treatment of stakeholders and manipulation of organizational structure (Tushabomwe, 2006; Ndagu & Obuobi, 2010). There are also concerns of lack of professionalism outside the control of SMEs such as dubious legal systems (Kauffmann, 2005). These ethical concerns have discouraged banks from lending to SMEs. In the absence of ethical environment and trust, SMEs lose out on capital financing as well as deprivation of social capital advocated for by the theory of social capital.

Competition from large enterprises

SMEs always face competition in accessing finance and markets (Griffiths, 2003). A number of survey-level studies have found that SMEs face greater obstacles than large firms both in terms of accessing finance and the underlying cost of credit (Leo, 2011). Yet, limited accessibility to markets constrains SMEs from generating capital needed to run daily business operations. Compared to large enterprises, SMEs are less efficient and incur high costs per unit of revenue (Ishengoma & Kappel, 2008). They use labor-intensive technologies compared to larger firms which are more capital-intensive. Besides, Ugandan SMEs face competition from the global economy (UN report, 2003). With poor technology, competition for markets and inadequate finance, SMEs cannot expand to serve global markets or even establish business linkages with larger firms. Moreover, they cannot acquire credit ratings that satisfy investors (Kumar, Krishna, Raghuram, *et al*, 1999; Park, 2006). SMEs are typically required to demonstrate that they have sufficient equity to contribute to their businesses, which many small business owners usually lack (Kasekende & Opondo, 2003). However, larger, older, and foreign firms have a much easier time accessing expansion and development capital than SMEs (Leo, 2011). Consequently, many SMEs stay small and informal and use simple technology (Kauffmann, 2005). The non-symbiotic relationship between large firms and SMEs due to competition implies that the duo may not develop social networks from which to derive social capital. This continues to affect the ability of SMEs to access finance.

Inadequate capacity to afford long term financing

There are four major sources of long term financing in Uganda. These are; capital markets, long term bank loans, leasing and retained earnings. Although long term financing favours enterprises in perfect markets, SMEs tend to suffer greatly due to their inability to secure long term financing even in such markets (Park, 2006). This is true with Uganda where scarcity of long term finance is a key impediment to greater investment and growth of SMEs. Moreover, Ugandan SMEs tend to have short-term business outlook(UIA, 2008) and operate under very difficult business conditions (Mensah, 2004; Kauffmann, 2005; Ishengoma & Kappel, 2008). In addition, SMEs tend to rely on informal sources of funds such as family, friends and customer advances instead of relying on bank loans (Ruffing, 2003). As such, SMEs continue to operate in the vicious cycle of inadequate financing. Given the important role played by SMEs in the Ugandan economy, it is paramount to mitigate these challenges by focusing on strategies that enhance favorable financing conditions. Such strategies are discussed below.

2.3.3 Remedies to challenges faced by SMEs in accessing services offered by commercial banks

Development of social capital through networks

There is enough evidence to confirm that if SMEs develop and maintain social networks, they will reap social capital which in the end enables them to obtain finance capital to fund daily operations. This is because, social capital builds trust among SMEs and their network partners, brings about social insurance which translates into business insurance

and gives access to relevant information which SMEs need for ease of business transactions (Spence, Schmidpeter & Habisch, 2003). This strategy has worked for banks which establish social networks with SMEs (DeYoung, Glennon, Nigro, & Spong, 2012). Perhaps hiccups arise in making choices of which
firms to engage in the social networks and which infrastructural mechanisms to establish in order for the networks to operate successfully. SMEs should build networks with non-rival firms in order to enhance their capacity to enter into, and observe contractual exchanges as well as legal protection from unfair practices by other firms (Spence, Schmidpeter & Habisch, 2003; Mensah, 2004).

Policy framework

The government should provide for a policy environment for reducing collateral requirements and providing safeguards. AS Ruffing (2003) explains, if an enabling policy, legal and regulatory framework and the necessary infrastructure to reduce the cost of doing business are accompanied by a stable macroeconomic environment, SMEs can play a significant role in economic development. Currently, the government of Uganda has made some initiatives to uplift the capacity of SMEs to raise funds. Such initiatives include provision of non-fiscal incentives like Plan for Modernization of Agriculture (PMA), Business Uganda Development Scheme (BUDS), Microfinance Outreach Plan, UNIDO Master Craftsman Programme (MCP), The Jua Kali Initiative and the Youth Fund (UIA, 2008). However, such initiatives have lacked multi-sectoral approaches (Oteh, 2010). Worse still, there are concerns over the distribution of these incentives to all intended beneficiaries. Moreover, there is still much effort needed for the government to draft policies aimed at the protection of SMEs in Uganda. Currently, interest rates on loans are higher than what SMEs can afford and money lender firms operate like sharks that devour SMEs' financial capital. Many SMEs are closing business because of inadequate collateral demanded by these firms. More incentives targeting youth should be established because they dominate the SME world and have proved to be more innovative and creative, yet lack of collateral hinders their operations (Nangoli, Basalirwa, Kituyi & Kusemererwa, 2013).

Enhancing information management in SMEs

One of the critical challenges limiting SMEs from accessing finance in Uganda is informational asymmetry. There are two ways in which SMEs can neutralize this challenge. First, relationship lending enhanced by social networks (Torre, Soledad, Peria &Schmukler, 2010) has the potential of mitigating opacity problems because it relies primarily on soft information gathered by the loan officer through continuous, personalized, direct contacts with SMEs, their owners and managers, and the local community in which they operate (Torre, Soledad, Peria &Schmukler, 2010).However, SMEs should not wait for the loan officer to solicit for the soft information. Through social networks, SMEs can learn best practices from other firms on how information is managed for effective business transactions. This is possible if SMEs understand their deficiencies in information management and the desirable way forward so that information availability is enabled and sustained to build their competitiveness (Namisango & Lubega, 2014). Secondly, adopting clear accounting standards, setting up independent, competent and reputable accounting firms and creating more credit bureau supplying data on the solvency of firms, banks can able to obtain relevant information from SMEs without having first to hustle with them (Kauffmann, 2005; Berger & Udell, 2006)

Improving management skills

There is consensus among management practitioners and academicians that effective management fosters qualitative and quantitative organizational development (Robbins; 1980; Tobbins, 1984; Koontz & O'Donnell, 1986; Pearson, 1990; Ivancevich& Gibson, 1990; Rosen Bloom, 1993; Habbard, 2001; Zondo, 2001; Ndagu &Obuobi, 2010; Maicibi, 2013). This paper concurs with scholars such as Seghers, Manigart & Vanacker (2009) whose research findings demonstrate that human capital and finance are linked. Entrepreneurs with high quality human capital can use more of their personal funds to mitigate their venture's finance constraints. The implication here is that if SMEs invest in human capital, it will increase their ability to raise finance for funding their operations. In the same accord, Ugandan SMEs should improve management skills with a focus on entrepreneurial training and skills development (Mensah, 2004). In addition, proper supervision and business skills training will supplement and synergize management efforts (Tushabomwe, 2010).Above all, SMEs should hire competent and motivated workforce who are achievement-oriented (Nangoli, Basalirwa, Kituyi, Kusemererwa, 2013). It is important that SMEs transient family and informal ties that potentially block effective management decision making.

2.4 Conclusion

SMEs have been recognized as important contributors to the economy. As such, several financial institutions especially banks are focusing on SMEs and are coming up with special packages to finance SMEs. In most banks there are now departments to cater for the often unique banking requirements of these entities (Mbabazi, 2012). However, SMEs are still not making their first year anniversary and grappling with a lot of challenges indicated in the literature, thus this study seeks to close the knowledge gap on the contributions of commercial banks on the growth of SMEs

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter outlines the methodology to be used in the study. It presents the research design, target population, sample size, sampling technique, data collection instruments, validity and reliability of the instruments, ethical consideration, data analysis and presentation and the limitation of the study

3.1 Research Design

Sekeran (2009) 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. The study will use descriptive cross-sectional research design to establish the contributions of commercial banks on the growth of SMEs in Uganda . A descriptive cross-sectional study is ideal for the study as it will be used to analyze different SME businesses and descriptive information regarding the business indicated.

3.2 Population of the study

Population of the study is the universe of units from which the sample is to be selected. The term ‘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. According to the Census of Business Establishments in Uganda of 2016, a sampling frame of 454,104 enterprises was identified from the whole country. The study will use 1% of the population to select small and medium enterprises that are located in Mbale Municipality. Therefore there are 4541 SMEs that are located in Mbale municipality. The criteria of choosing the SMEs are the enterprise employing more than 3 people.

3.3 Sample Size

Sample is 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. From the population of 4541 SMEs, Mbale central market hosts over 25 SMEs. The sample size for the study will be determined from Krejcie, Robert V., Morgan, Daryle W table. According to the table, from a population of 25, the sample is 24. Therefore 24SMEs will select into the sample. The sample size for the study is 24 respondents

3.4 Sampling Technique

The study will use simple random sampling to select the SMEs into the sample in Mbale central market. This technique is chosen because it will equal chance to all the SMEs to be selected for the study and this will eliminate un biasness in the study.

Table 3.1: Showing Sample Size and Population of the Study

Respondents	**Population**	**Sample**	**Sampling technique**
SMEs managers	25	24	Simple random sampling
Total	**25**	**24**	

3.5 Data Collection Methods

The study will use primary data for the study. Both questionnaire method and interview method will be used to conduct the study

3.6 Data Collection Instruments

The study will use both questionnaire and in-depth interviews to collect data from the field

3.5.1 Questionnaire

A questionnaire is a list of written questions and can be completed in two basic ways; completed by respondents without the presence of the researcher (Postal Questionnaire) or the structured questionnaire where respondents verbally respond to questions in the presence of the researcher.

A total of 24 questionnaires will be used and properly monitored so that they are returned. With the questionnaire method the researcher will be able to easily reach out to large numbers of respondents in a short period of time.

3.5.2 In-Depth Interviews

These are interviews conducted with key individuals (respondents from commercial banks) within the target population. These will provide the researcher with detailed, qualitative information about impressions, experiences and opinions of respondents from top management of the selected SMEs o the services provided by the commercial banks in Mbale municipality

3.6 Validity and reliability of the research instruments

3.6.1 Validity of instruments

Validity refers to the truthfulness of findings or the extent to which the instrument is relevant in measuring what it is supposed to measure. Validity here refers to the extent to which the instrument accurately measures what it is intended to measure (Sekeran, 2009). This study will

utilize triangulation to ensure validity of research findings prior to the administration of the research instruments. Content validity ratio will be employed to determine the content validity index using the formula below:

CVI = Total Number of items rated by all respondents / Total number of items in the instrument

A CVI of 0.7 and above is considered satisfactory.

3.6.2 Reliability of the Instruments

Reliability measures the consistency of research instruments to come out with the same result each time it is used under the same condition (Sekeran, 2009). The reliability of the research instruments will be ascertained through pre-testing to cross check the consistency and accuracy of the questions and answers obtained. A Cronbach alpha test will be particularly carried out to establish the reliability of the questionnaire. If R sqd (Alpha) value is equal to 0.7 or it is above, then the instrument was considered satisfactory (Cronbach, 1951).

3.7 Data Collection Procedure

After modifying the instrument, the researcher will secure a letter of introduction to proceed to the field, the researcher will distribute and collect questionnaires to and from respondents. Qualitative and quantitative data will be collected from various respondents using questionnaires from the SMEs and face to face interviews will be conducted on respondents from the commercial banks.

3.8 Data Analysis and Presentation

The researcher will edit the data for completeness and accuracy and there it will be coded so that it can be entered in SPSS for analysis. Data will be presented in frequency and percentages in tabulated format

3.9 Limitation and Delimitation of the study

Small and medium enterprises are critical about security and disbursement of information pertaining to their operations. The main limitation anticipated is in terms of accessing information that will be considered classified by SMEs. The respondents, especially the owners may try to refuse to disclose information about their enterprises The other factor that may limit may be the response rate (due to loss of some questionnaires) which may affect the reliability of the study. However, in this case, more questionnaires will be distributed to ensure that the appropriate sample will be attained. Confidentiality will be assured to the different mangers of SMEs in Mbale central market that the study is only for academic purpose.

CHAPTER FOUR: DATA PRESENTATION ANALYSIS AND INTERPRETATION OF THE FINDINGS

4.0 Introduction

This chapter presents data presentation, analysis and interpretation of the findings on the objectives of the study

4.1 Descriptive Analysis

Table 4.1: Shows the Sex of the Respondents

Sex of Respondents	Frequency	Percentage
Male	18	75
Female	06	25
Total	**24**	**100**

Source: Field Data (2019)

The findings from the study show that 75% of the respondents were male, 25% of the respondents were female. The findings from the study show that there more men who own SMEs compared to the females in Mbale central market.

Table 4.2 Shows the Age of the Respondents

Age of Respondent	Frequency	Percentage
20-30 years	05	20.8
31-40 years	08	33.3
41 years above	11	45.8
Total	24	100

Source: Field Data (2019)

The findings from the study show that 45.8% of the respondents were 41 years and above, 33.3% of the respondents were in the age bracket of 31-40 years, 20.8% of the respondents were in the age bracket of 20-30 years. The findings from the study implies that some mature people manage SMEs thus they are experienced in their everyday works.

Table 4.3: Shows the Education Level of Respondents

Education Level	Frequency	Percentage
Bachelor	02	8.3
Diploma	12	50
Certificate	10	41.7
Total	**24**	**100**

Source: Field Data (2019)

The findings from the study show that 50% of the respondents were diploma holders, 41.7% of the respondents were certificate holders and 8.3% of the respondents were bachelor degree holders. The findings imply that most SMEs owners are educated thus carrying out tasks efficiently.

Table 4.4: Shows the Marital Status

Marital status	Frequency	Percentage
Married	19	79.2
Single	4	16.7
Divorced	1	4.2
Total	**24**	**100**

Source : Field Data (2019)

The findings from the study show that 79.2% of the respondents were married, 16.7% of the respondents were single, 4.2% of the respondents were divorced. The findings from the study imply that most SMEs' owners are married which means that they are responsible in their business schedules.

Table 4.5: Shows the Duration of the Enterprise

Marital status	Frequency	Percentage
Married	1	4.2
Single	8	33.3
Divorced	15	62.5
Total	**24**	**100**

Source: Field Data (2019)

The findings from the study show that 62.5% of the respondents said that their business had existed for 8 years and above, 33.3% of the respondents said that their businesses had existed for a period of 4-7 years and 4.2% of the respondents said that their enterprise have existed for 1-3 years. The findings from the study imply that most SMEs have existed for long thus good management skills is evidenced by the SMEs owners

4.2 Different forms of services commercial banks offer to SMEs

The study ascertained the different forms of services commercial banks offer to SMEs. The findings from the study are presented in table 4.6 below;

Table 4.6 shows the different forms of services offered by commercial banks to SMEs

Question	SA	A	N	D	SD	St De	Mean
The banks extend loans to SMEs	45.8%	29.2%	4.2%	16.7 %	4.2%	1.268	2.04
Commercial bank provide financial advise	12.5%	4.2%	0%	75%	8.3%	1.135	3.63
Commercial banks extend deposit services	83.3%	16.7%	0%	0%	0%	.381	1.17
Commercial banks extend entrepreneurship advisory services to its clientele	37.5%	62.5%	0%	0%	0%	.495	1.63
Commercial banks extends corporate credit card to SMEs	54.2%	45.8%	0%	0%	0%	.509	1.46
Commercial banks extend provision of bank statement to SMEs	12.5%	12.5%	8.3%	58.3 %	8.3%	1.209	3.38

Source: Field Data (2019)

The findings from the study show that 45.8% of the respondents strongly agreed that The banks extend loans to SMEs on time, 29.2% of the respondent also agreed with the statement. 16.7% of the respondents disagreed with the statement, 4.2% of the respondents were not sure and disagreed strongly disagreed with the statement respectively. The findings from the study imply commercial banks extend credit to SMEs in Mbale central market on time.

The findings reveal that 75% of the respondents disagreed that The banks extend insurance services to SMEs in Mbale municipality, 8.3% of the respondents also strongly agreed with the statement, 12.5% of the respondents strongly agreed with the statement whereas 4.2% of the respondents agreed with the statement. The findings from the study imply that banks no extend insurance services to SMEs in Mbale central market

The findings reveal that 83.3% of the respondents strongly agreed that the commercial banks reduce information asymmetries amongst SMEs, 16.7% of the respondents also agreed with the statement, the findings from the study imply that commercial banks reduce information asymmetries amongst SMEs on financial services

The findings from the study reveal that 62.5% of the respondents agreed that the commercial banks extend entrepreneurship advisory services to SMEs. 37.5% of the respondents also strongly agreed with the statement, the findings from the study imply that commercial banks extend entrepreneurship advisory services to SMEs.

The findings from the study show that 54.2% of the respondents strongly agreed that the banks promote industrial related trade shows to enhance the growth of SMEs, 45.8% of the respondents also agreed with the statement, the findings from the study imply that banks promote industrial related trade shows which enhance the performance of SMEs through exhibition

The findings from the study show that 58.3% of respondents disagreed that Commercial banks extend data aggregation and management services to SMEs to enhance their growth, 12.5% of the respondents were strongly agreed and agreed with the statement respectively, 8.3% of the respondents were not sure and strongly disagreed with the statement respectively. The findings from the study imply that commercial banks to do not extend data management services to SMEs in Mbale central market

4.3 Challenges faced by SMEs while acquiring services from commercial banks

The study ascertained the challenges faced by SMEs in acquiring services from commercial banks in Mbale central market. The findings from the study are presented in table 4.7 below;

Table 4.7 shows the challenges faced by SMEs while acquiring services from commercial banks

	QUESTIONS	SA	A	N	D	SD	St De	Mean
	lack of collateral security limit SMEs in acquiring loans from commercial banks	62.5%	37.5%	0%	0%	0%	.495	1.38
	Having limited information on the financial services has limited SMEs in acquiring financial services from commercial banks	50%	41.7%	8.3%	0%	0%	.654	1.58
	Limited financial skills hinders the ability of SMEs to receive financing services from commercial banks	54.2%	33.3%	8.3%	4.2%	0%	.824	1.63
	Disrespecting business contract hampers SMEsin acquiring financial services from commercial banks	20.8%	25%	54.2%	0%	0%	1.296	2.88
	SMEs faces competition in acquiring credit from large corporations in the same industry	54.2%	45.8%	0%	0%	0%	.509	1.46
	There is scarcity of long term financing for small and medium enterprises in Uganda	50%	50%	0%	0%	0%	.511	1.50

Source: Field Data (2019)

The findings from the study reveal that 62.5% of the respondents strongly agreed that lack of collateral security limit you in acquiring loans from commercial banks, 37.5% of the respondents also agreed with the statement, the findings from the study imply that collateral security limits most SMEs owners in Mbale central market

The findings show that 50% of the respondents strongly agreed that having limited information on the financial services has limited you in acquiring financial services from commercial banks, 41.7% of the respondents also agreed with the statement, 8.3% of the respondents were not sure about the statement. The findings from the study imply that limited information on financial services limits SMEs in accessing services from commercial banks in Mbale municipality

The study findings reveal that 54.2% of the respondents strongly agreed that Limited financial skills hinders the ability of SMEs to receive financing from commercial banks, 33.3% of the respondents agreed with the statement, 8.3% of the respondents whereas 4.2% of the respondents disagreed with the statement. The findings from the study imply that limited financial skills hinders the ability of SMEs in accessing financial services from commercial banks.

The findings from the study reveal that 54.2% of the respondents were not sure on whether disrespecting business contract hampers your business in acquiring financial services from commercial banks, 25% of the respondents agreed with the statement whereas 20.8% of the respondents strongly agreed with the statement. The findings from the study imply that disrespecting business contracts does not influence the access of services from commercial banks by SMEs in Mbale central market

The findings from the study show that 54.2% of the respondents strongly agreed that SMEs faces competition in acquiring credit from large corporations in the same industry, 45.8% of the respondents also agreed with the statement. The findings from the study imply that competition from large scale enterprises limit SMEs in accessing credit from commercial banks in Mbale municipality

The findings from the study show that 50% of the respondents strongly agreed and agreed that there is scarcity of long term financing for small and medium enterprises in Uganda respectively, the findings from the study imply that scarcity of long term financing for SMEs hinders them in accessing credit from commercial banks.

4.4 Contributions of commercial banks towards the growth of SMEs

The study ascertained the contributions of commercial banks towards the growth of SMEs in Mbale central Market. The findings are presented in the table 4.8 below;

Table 4.8 shows the contributions of commercial banks towards the growth of SMEs

	Questions	SA	A	N	D	SD	St De	Mean
	Loan from commercial bank has increased the growth of SMEs	41.7%	58.3%	0%	0%	0%	.504	1.58
	Available services from commercial bank has improved the financial performance of SMEs	70.8%	29.2%	0%	0%	0%	.464	1.29
	Access to capital enables SMEs to exploit investment opportunities	75%	25%	0%	0%	0%	.442	1.25
	Accurate loan term affects the performance of SMEs	70.8%	29.2%	0%	0%	0%	1.484	2.88
	Availability of finances from the bank increases bulk purchase of factors of production leading to reduction to cost production	66.7%	33.3%	0%	0%	0%	.482	1.33

Source: Field Data (2019)

The findings show that 58.3% of the respondents agreed that access to credit from banks fosters innovation in your enterprise, 41.7% of the respondents also strongly agreed with the statement. The findings from the study imply that access to credit from commercial banks by SMEs increases innovation in the economy

The findings from the study reveal that 70.8% of the respondents strongly agreed that banks reduce risks among SMEs due to availability of liquidity from banks, 29.2% of the respondents also agreed with the statement, the findings from the study imply that banks help in reduction of risks among SMEs by availing liquidity to them.

The findings from the study reveal that 75% of the respondents strongly agreed that Access to capital enables SMEs to exploit investment opportunities, 25% of the respondents also agreed with the statement, the findings from the study imply that access to capital or credits enable SMEs to exploit investment opportunities

The findings from the study reveal that 70.8% of the respondents strongly agreed that advisory services like market intelligence enhances on the performance of SMEs, 29.2% of the respondents also agreed with the statement, the findings from the study imply that advisory services enhance on the performance of SMEs

The findings from the study reveal that 66.7% of respondents strongly agreed that availability of finances from the bank increases bulk purchase of factors of production leading to reduction to cost of production, 33.3% of the respondents agreed with the statement. the findings from the study imply that availability of finances from commercial banks reduce on cost of production since SMEs buy resources in Bulk in Mbale central Market

CHAPTER FIVE

SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the summary of the findings, conclusions and recommendations on the phenomena under study

5.1 Summary of the findings

And the main research objectives are to find the different services commercial banks offer to SMEs in Uganda, the different challenges faced by SMEs while acquiring services from commercial banks and the contributions of commercial bank services towards the performance of SMEs.

5.1.1 What is the different services commercial banks offer to SMEs in Uganda?

The findings from the study show that 45.8% of the respondents strongly agreed that the banks extend loans to SMEs on time, commercial banks extend credit to SMEs in Mbale central market on time. The findings of the study are in line with the literature presented by Sunder (2009) which means that commercial bank extend credit to SMEs.

The findings reveal that 75% of the respondents disagreed that the banks extend insurance services to SMEs in Mbale central market, banks no extend insurance services to SMEs in Mbale central market. The findings of the study are not in agreement with the literature forward by Cabral & Mata (2003), thus banks do not necessarily insure the SMEs.

The findings reveal that 83.3% of the respondents strongly agreed that the commercial banks reduce information asymmetries amongst SMEs; commercial banks reduce information asymmetries amongst SMEs on financial services. The findings of the study are in agreement with the literature put forward by (Greenwood and Jovanovich, 1990; Habibullah and Eng., 2006). Therefore banks reduce information asymmetries amongst SMEs on financial services in the financial system

The findings from the study reveal that 62.5% of the respondents agreed that the commercial banks extend entrepreneurship advisory services to SMEs, commercial banks extend entrepreneurship advisory services to SMEs. The findings of the study are in agreement with the literature asserted Cabral & Mata (2003), thus commercial banks extend entrepreneurship advisory services to SMEs.

The findings from the study show that 54.2% of the respondents strongly agreed that the banks promote industrial related trade shows to enhance the growth of SMEs, banks promote industrial related trade shows which enhance the performance of SMEs through exhibition. The findings of the study are in line with the literature presented by Cabral & Mata (2003), who asserted that banks promote industrial related shows which enhance the performance of SMEs through exhibition in these shows

The findings from the study show that 58.3% of respondents disagreed that Commercial banks extend data aggregation and management services to SMEs to enhance their growth, commercial banks to do not extend data management services to SMEs in Mbale central market. The findings of the study are not in line with the literature presented by Cabral & Mata (2003). Thus SMEs do not experience data management services from SMEs

5.1.2 What are the different challenges faced by SMEs while acquiring services from commercial banks?

62.5% of the respondents strongly agreed that lack of collateral security limit you in acquiring loans from commercial banks, collateral security limits most SMEs owners in Mbale central market. The findings of the study are in agreement with the literature by (Park (2006). Who asserted loans for SMEs are backed by collateral security

The findings show that 50% of the respondents strongly agreed that having limited information on the financial services has limited you in acquiring financial services from commercial banks, limited information on financial services limits SMEs in accessing services from commercial banks in Mbale central market. The findings of the study are in agreement with the literature presented by (Adler & Rodman, 1997; DE fleur&Everett, 1999; Maicibi, 2003).

The study findings reveal that 54.2% of the respondents strongly agreed that Limited financial skills hinders the ability of SMEs to receive financing from commercial banks, limited financial skills hinders the ability of SMEs in accessing financial services from commercial banks. The findings of the study are in agreement with the literature presented by Kasekende & Opondo, 2003; Tusubira & Nabeta, 2013),

The findings from the study reveal that 54.2% of the respondents were not sure on whether disrespecting business contract hampers your business in acquiring financial services from commercial banks, disrespecting business contracts does not influence the access of services from commercial banks by SMEs in Mbale central market . The findings of the study are not in agreement with the literature asserted by (Kasekende & Opondo, 2003) that SMEs lack professionalism in their enterprises.

The findings from the study show that 54.2% of the respondents strongly agreed that SMEs faces competition in acquiring credit from large corporations in the same industry, competition from large scale enterprises limit SMEs in accessing credit from commercial banks in Mbale municipality .

The findings from the study show that 50% of the respondents strongly agreed and agreed that there is scarcity of long term financing for small and medium enterprises in Uganda respectively, the findings from the study imply that scarcity of long term financing for SMEs hinders them in accessing credit from commercial banks. The findings of the study are in line with the literature presented by (Leo, 2011) who asserted that the cost of credit influenced by large corporations hinders the performance of SMEs.

5.1.3 What are the contributions of commercial bank services towards the performance of SMEs?

58.3% of the respondents agreed that access to credit from banks fosters innovation in your enterprise, access to credit from commercial banks by SMEs increases innovation in the economy. The findings from the study reveal that 70.8% of the respondents strongly agreed that banks reduce risks among SMEs due to availability of liquidity from banks, banks help in reduction of risks among SMEs by availing liquidity to them. The findings from the study reveal that 75% of the respondents strongly agreed that access to capital enables SMEs to exploit investment opportunities, access to capital or credits enable SMEs to exploit investment opportunities. The findings from the study reveal that 70.8% of the respondents strongly agreed that advisory services like market intelligence enhances on the performance of SMEs, services enhance on the performance of SMEs. The findings from the study reveal that 66.7% of respondents strongly agreed that availability of finances from the bank increases bulk purchase of factors of production leading to reduction to cost of production, availability of finances from commercial banks reduce on cost of production since SMEs buy resources in Bulk in Mbale central Market

5.2 Conclusions

5.2.1 What is the different services commercial banks offer to SMEs in Uganda?

Commercial banks extend credit to SMEs in Mbale central market on time. Banks no extend insurance services to SMEs in Mbale central market. Commercial banks reduce information asymmetries amongst SMEs on financial services. Commercial banks reduce information asymmetries amongst SMEs on financial services. Commercial banks extend entrepreneurship advisory services to SMEs. Banks promote industrial related trade shows which enhance the performance of SMEs through exhibition. Commercial banks to do not extend data management services to SMEs in Mbale central market.

5.2.2 What are the different challenges faced by SMEs while acquiring services from commercial banks?

Collateral security limits most SMEs owners in Mbale central market.Limited information on financial services limits SMEs in accessing services from commercial banks in Mbale municipality. Limited financial skills hinder the ability of SMEs in accessing financial services from commercial banks.Disrespecting business contracts does not influence the access of services from commercial banks by SMEs in Mbale central market. Competitions from large scale enterprises limit SMEs in accessing credit from commercial banks in Mbale municipality. Scarcity of long term financing for SMEs hinders them in accessing credit from commercial banks.

5.2.3 What are the contributions of commercial bank services towards the performance of SMEs?

Access to credit from commercial banks by SMEs increases innovation in the economy. Banks help in reduction of risks among SMEs by availing liquidity to them. Access to capital or credits enables SMEs to exploit investment opportunities. That advisory service enhance on the performance of SMEs. Availability of finances from commercial banks reduce on cost of production since SMEs buy resources in Bulk in Mbale central Market

5.3 Recommendations

The commercial banks should endeavor to avail financial information to the public always on time and increment in awareness on the financial services is another strategy that enhance the reduction information asymmetries among SMEs

SMEs owners should make up groups inform of SACCOs so that they have collateral security in securing credit from commercial banks

Training of SME owners on risk management for example financial risk management will enhance on the performance of small and medium enterprises in Uganda.

5.4 Areas for further studies

- The study suggests further research on the topic with regards to other factors that may be affecting profitability of SMEs. One of the variables that can be analyzed as having an effect on
- Profitability of an SME would be the business life cycle as it also impacts the profitability of a business.
- Effects of financial records on the performance of SMEs in Mbale municipality

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APPENDIX I: QUESTIONNAIRES FOR THE RESPONDENTS

UGANDA MARTYRS UNIVERSITY

FACUITY OF BUSINESS ADMISTRATION AND MANAGEMENT:

BACHALUR OF BUSINESS ADMINISTRATION AND MANAGEMENT

DEAR RESPONDENT.

REF: REQUEST TO COMPLETE RESEARCH QUESTIONER.

I am a student of Business Administration and Management of Uganda Martyrs University conducting a study on ***"contributions of commercial banks towards the growth of SMEs in Mbale central market"*** and you have selected as potential respondent in the study.

This therefore is to kindly request you to complete this questionnaire as honestly as possible.

Your opinion will be respected and treated with utmost anonymity and confidentiality.

The responses you will give will be strictly used for academic purposes only.

Yours faithfully.

………………..

Researcher.

………………

SELF ADMINISTERED QUESTIONAIRE

SECTION A

PERSONAL INFORMATION

Please tick or fill where applicable

1. Sex of respondents

   Male ☐ Female ☐

2. Age of respondents in years

   18-25 ☐ 26-35☐ 36-45 and above ☐

3. Educational level of respondents

   Post graduate ☐ Degree ☐ Diploma ☐ Certificate ☐

4. Marital status

   Married ☐ Single ☐ Divorced ☐

5. Duration you have been in that business

   1-3 years ☐ 4-7 years ☐ 8 years and above ☐

6. Position ………………………………………………………………….

In this section you are required to tick on response option ranging from (1 = strongly agree, 2= agree, 3= neither agree nor disagree, 4= disagree, 5=strongly disagree) if you are satisfied that the response falls in that category

SECTION B

DIFFERENT FORMS OF SERVICES COMMERCIAL BANKS OFFER TO SMEs

	Questions.	**1**	**2**	**3**	**4**	**5**
7	The banks extend loans to the SMEs					
8.	Commercial bank provide financial advise					
9.	Commercial banks extend deposit services.					
10.	the commercial banks extend entrepreneurship advisory services to its clientele					
11.	Commercial banks extends corporate credit card to SMEs					
12.	Commercial banks extend provision of bank statement to SMEs					

SECTION C: CHALLENGES FACED BY SMES WHILE ACQUIRING SERVICES FROM COMMERCIAL BANKS

	Questions	1	2	3	4	5
13	lack of collateral security limit SMEs in acquiring loans from commercial banks					
14	Having limited information on the financial services has limited SMEs in acquiring financial services from commercial banks					
15	Limited financial skills hinders the ability of SMEs to receive financing from commercial banks					
16	Disrespecting business contract hampers SMEs business in acquiring financial services from commercial banks					
17	SMEs faces competition in acquiring credit from large corporations in the same industry					
18	There is scarcity of long term financing for small and medium enterprises in Uganda					

SECTION D: CONTRIBUTIONS OF COMMERCIAL BANKS TOWARDS THE GROWTH OF SMEs

	Questions	1	2	3	4	5
19	Loan from commercial bank has increased the growth of SMEs					
20	Available services from commercial bank has improved the financial performance of SMEs					
21	Access to capital enables SMEs to exploit investment opportunities					
22	Accurate loan term affects the performance of SMEs					
23	Availability of finances from the bank increases bulk purchase of factors of production leading to reduction to cost of production					

Thank you for your corporation

APPENDIX II: INTERVIEW GUIDE

Date of interview…

Name of interview: ………………………………………………………………….

Name of the interviewee: ……………………………………………………………

Name of enterprise…

No	Interview question	Response	Interviewer comments
1	Do you know financial services offered by commercial banks to SMEs If yes , would you mention the different forms of financial services offered by commercial banks to SMEs		
2.	In your words explain the how the services offered by the commercial banks has affected the growth of SMEs		
3.	What are the different challenges that SMEs face when acquiring financial services from commercial banks?		
4.	Can you comment on impact of different forms of services offered by the SMEs		

5.	How do you rate the contribution of commercial banks to the SMEs		
6.	Is there any other information on the role of commercial banks to the growth of SMEs you need to add? If yes please add		

Thank you for your corporation

APPENDIX III: BUDGET

Item	**Quantity**	**Unit price (shs)**	**Totals**
Transport			
Visiting supervisor	7 Times	14000	98,000
Going to the field	4 times	10,000	400,000
Secretarial			30,000
Type setting			40,000
Photocopying			80000
Binding			4000
Stationary	1 reams	16000	16000
papers	-	-	-
pens	-	-	-
Miscellaneous			40000
Grand Total			**708000**

APPENDIX IV: WORK PLAN

Time	Activity
August 2018	Proposal writing
December 2018	Tool piloting
March 2019	Data collection
April 2019	Data analysis
May 2019	Draft report writing
May 2019	Final report writing
May 2019	Report submissions

APPENDIX V : TABLE OF DETERMINING SAMPLE SIZE AND POPULATION

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	246
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	351
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	181	1200	291	6000	361
45	40	180	118	400	196	1300	297	7000	364
50	44	190	123	420	201	1400	302	8000	367
55	48	200	127	440	205	1500	306	9000	368
60	**52**	210	132	460	210	1600	310	10000	373
65	56	220	136	480	214	1700	313	15000	375
70	59	230	140	500	217	1800	317	20000	377
75	63	240	144	550	225	1900	320	30000	379
80	66	250	148	600	234	2000	322	40000	380
85	70	260	152	650	242	2200	327	50000	381
90	73	270	155	700	248	2400	331	75000	382
95	76	270	159	750	256	2600	335	100000	384

Note: “N” is population size

“S” is sample size.

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