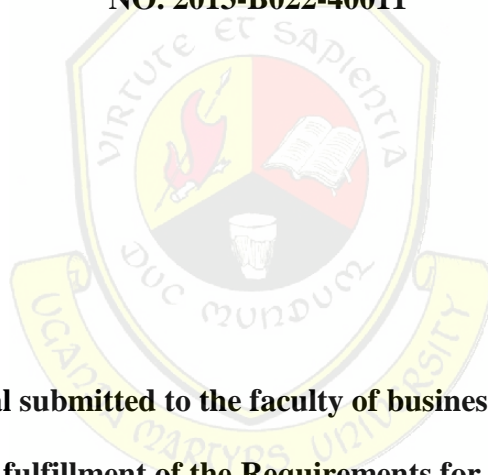


The Impacts of access to finance on performance of small medium enterprises

A case study of Mbale central market

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DEDICATION

I dedicate this research report to the entire family of the for their moral and financial support towards success of my education that has given me the enlighthment of the future.

ACKNOWLEDGEMENT

In a credible way am proud to say that my supervisor MR KUKA PHINEAS deserves credit for his excellent sense and his avid interest in my work which helped me keep on the right track. For sure his guidance has made my work a reality. To my dear father and mother, friends and brethren, I say thank you from my innermost part. I am greatly sorry for the exhaustion I would transfer to you after hectic lectures and field work. I believe in that scenario I was in one way or another playing a role model for your future education career.

Am greatly indebted to the Managers, owners of the business and employees in Mbale Central Market for their valuable help and cooperation in providing the needed information. Special thanks and appreciation go to my family members my father Osinde, mummy Josephine for their parental love, sacrifice, and support may God bless them abundantly.

Last but not the least I must say thank you to my respondents the managers, business owners for the vital information given to me free of suspicion and for accepting me in your business. I also thank my colleagues and true friends whom we shared a vision of undertaking studies. I particularly thank my friends and course mates Esther, Tito, Ngania, Vincent, Regina and Omugenwho helped me in this struggle.

ACRONYMS

GoU	– Government of Uganda
MDGs	– Millennium Development Goals
UBOS	– Uganda Bureau of Statistics
FY	– Financial Year
GDP	– Gross Domestic Product
UIA	– Uganda Investment Authority
EU	– European Union
OECD	– Organization of Economic Cooperation and Development
TASBI	- Transatlantic Small Business Initiative
SMEs	– Small Medium Enterprises
UBI	– Uganda Business Inquiry
COMESA	– Common Market for East and Southern Africa
EAC	– East African Community
PEAP	– Poverty Eradication Action Plan
UNHS	– Uganda National Household Survey
MGAs	– Mutual Guarantee Associations
GNP	– Gross National Product
PSF	– Private Sector Foundation

USSIA – Uganda Small Scale Industries Association

BCU - Bugisu Corporative Union

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ABSTRACT

This study was designed to find out the impact of access to finance on performance of Small medium enterprises in Mbale Town. It was particularly intended to identify the impacts of access to finance on performance of small medium enterprises in Mbale Central Market.

The researcher used both qualitative and quantitative research designs with a case study and a size of 60 out of 80 respondents. It should be noted that both primary and secondary data was used and the data collection methods included use of questionnaires and random sampling to collect detailed information; they contained both open-ended and closed questions and data was analysed using SPSS. This was used to improve easy accessibility of finance that determine the performance of the SMEs.

The respondents included; managers, business owners and employees.

The study established that access to finance has got great impacts on the performance of the SMEs. The findings show a great role of access to finance and the positive impacts on SMEs.

The study recommends that manager, business owners should adopt the wide use of radio advertising strategy, bank loans, customer's satisfaction because they are mostly used by people. Also different languages can be used on same radio this becomes cheap to meet different customers of different cultures using languages like Kiswahili, English, Luganda and Runyankole. Market research need to be emphasized so that through research customers' needs and wants can be discovered. This may enhance the production of client's tastes and preferences.

In conclusion, the relationship between finance and performance of Small Medium Enterprises can be termed as a strong positive correlation, finance drives performance. If business owners and managers ignore the role of information updates concerning access to finance, performance of the SMEs may deteriorate

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter presents the background of study, problem statement, purpose of the study, objectives of the study, significance of the study, and scope of study.

1.1 Background of the study

SMEs was widely be defined in terms of their characteristics, which include the size of capital investment, the number of employees, the turnover, the management style, the location, and the market share. Country context that plays a major role in determining the nature of these characteristics, especially, the size of investment in capital accumulation and the number of employees. For developing countries, small medium enterprises were usually mean those with 50-99 workers. Medium sized enterprise is considered a firm, which employs between 50-100 workers. Other characteristics have not been fully developed. The main argument for favoring SMEs in developing countries is increasingly playing a strategic role in economic growth and development through their contribution in the creation of wealth, employment, and income generation.

In Uganda, SMEs increasingly takes the role of creation of employment and income generation through self-employment, and therefore, the tools for poverty alleviation. SMEs also provide the economy with a continuous supply of ideas, skills and innovation necessary to promote competition and the efficient allocation of scarce resources. These and other SMEs provides domestic linkages such as the link between agriculture and large-scale industries, creating expanding opportunities for employment and income generation both in rural and urban areas at relatively low cost, ensuring a more equitable income distribution. This was, in turn be mitigated some of the problems that will be

unplanned urbanization tends to create, offering an efficient and progressive decentralization of the economy. Thus, SMEs will play a crucial role in creating opportunities to attain equitable and sustainable growth and development possible. It is estimated that there are over 800,000 SMEs in Uganda, providing employment and income generation opportunities to low income sectors of the economy.

Due to their characteristics, however, SMEs in Uganda suffer from constraints that lower their resilience to risks that prevents them from growing and attaining economies of scale. The challenges are not only in the areas of financing investment and working capital, but also in human resource development, market access, and access to modern technology and information. Access to financial resources is constrained by both internal and external factors. Internally, most SMEs lack creditworthiness and management capacity, so they always have trouble securing funds for their business activities such as procuring raw materials and products, and investing in plant and equipment. From the external perspective, SMEs is regarded as insecure and costly businesses to deal with because of lack of required collateral and thus have the capacity to absorb only small amount of funds from financial institutions. Therefore they are rationed out in their access to credit because of high intermediation costs, including the cost of monitoring and enforcement of loan contracts. To overcome some of the constraints, the government and other players such as the Bank of Uganda (BOU), has to design programs and policies that is market driven and market non-distorting to support SMEs. Government does this by for instance, creating stable macroeconomic conditions, liberalize the economy, and encourage the growth of micro-financing business. A law enacted to guide the development and sustainability of micro-finance institutions while at the same time allows them to collect deposits. Nevertheless, the challenge to SMEs in accessing financial services will also depend on how they themselves

will increase their creditworthiness.

1.2 Statement of the problem

The access to finance is necessary to create an economic environment that enables firms to grow and prosper. SMEs in developing countries, however, face significant barriers to finance. Financial constraints tend to be higher in developing countries in general, but SMEs particularly be constrained by gaps in the financial system such as high administrative costs, high collateral requirements and lack of experience within financial intermediaries. Increase access to finance for SMEs improves economic conditions in developing countries by fostering innovation, macro-economic resilience, and GDP growth.

(NGOs), rural farmers' schemes and savings societies provide credit facilities to micro and small medium enterprises and people who have experienced difficulties in obtaining such services from the formal financial institutions. Their range of activities include; deposit taking, savings schemes, small medium enterprises, agriculture, and real estate, group lending, retail financial services, giving advice on financial matters and training in business management among others.

Therefore, the impact of access to finance on small medium enterprises study on SME growth as result of microfinance service delivery was geared towards establishing and bridging the Small Medium Enterprises growth gaps in Uganda.

1.3 Purpose of the study

The purpose of the study is to establish and evaluate the impact of access to finance on SMEs (small medium enterprises) in Mbale Central Market that consists of the background to the study, statement of the problem, purpose of the study, objectives of the study, research questions, scope and significance of the study.

1.4 Objectives of the study

1. To assess the performance of small medium enterprises in Mbale Central Market.
2. To identify the problems faced by SMEs in complying with tax policies.
3. To find out problems that affect SMEs to access finance.

1.5 Research questions.

The study was intended to answer the following:-

1. What has been the performance of Small Medium Enterprises in Mbale Central Market?
2. Are SMEs aware of the tax policies concerning taxes?
3. What have been the problems faced By SMEs on access to finance?

1.6 Scope of the study

1.6.1 Subject scope

The study covered small scale enterprise in Mbale Central Market. Specifically, the study was to investigate the performance of SMEs intermediaries, the awareness of the finance policy problems faced by the SMEs and the relationship between the taxes to be paid and the performance of the small medium enterprises.

1.6.2 Geographical scope

The study was carried out in Mbale Central Market, Mbale District. The area is purposely selected because the researcher needs to work within the vicinity and therefore this eased data collection.

1.6.3 Time scope

The study considered a period of 3 years 2013-2016. This period was selected to enable the researcher come up with coherent information from the respondents as it enabled them respondents to give responses that are typical of their opinion from the observations that was made over this period.

1.7 Significance of the study

The findings of the study may be the significant on the following ways;

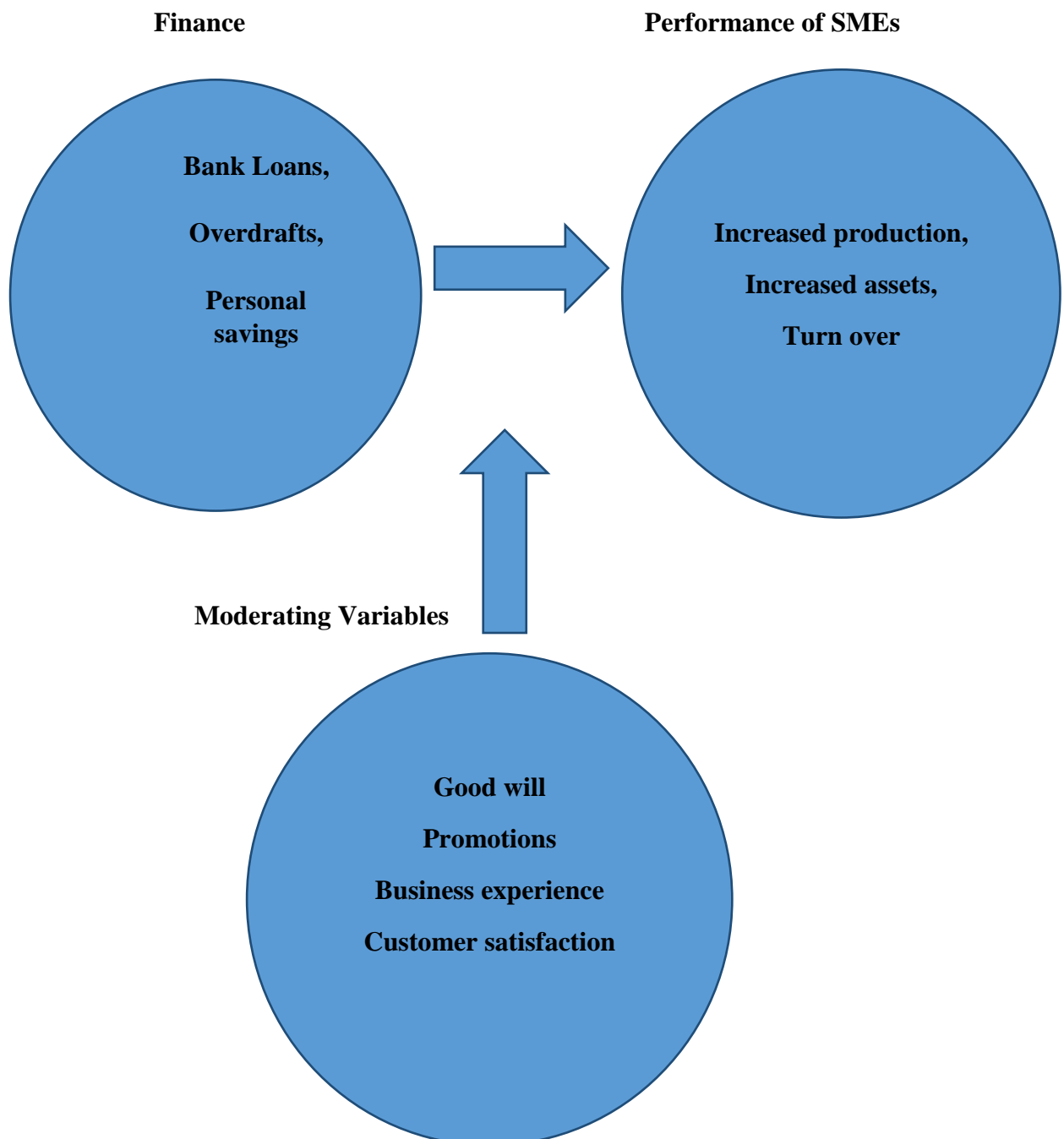
1. To scholars and researchers, the findings of the study may be expected to contribute to the existing literature about taxation and the effect it causes to the economy as a whole.
2. To the tax authority and government, the study may guide them in adjusting tax policies so that will suit requirements of small medium enterprises.

3. To future academicians especially of Uganda Martyrs University, the study may help in gaining insight about taxes and performance of small medium enterprises.

4. The accomplishment of the study may enable the researcher to acquire hands on skills about processing of research work and data analysis. This proficiency will enable the researcher to handle such related work with a lot of precision and proficiency.

1.8 Conceptual Framework.

Independent Variables Dependent Variables



According to the conceptual framework, different access to finance such as bank loans, overdrafts, and person savings can lead to increased productivity, increased assets and turnover among others.

However, other factors such as Goodwill, promotions, business experience, customer satisfactions can also contribute to SMEs' improved performance.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter may look at taxation and its impact to performance of Small Medium Enterprises in Uganda particularly Mbale Central Market. It consists of existing literature on taxation by different scholars/research studies from magazines, text books, journals and newspapers. This chapter will cover taxation, classification, and purpose of taxation. However, it particularly addressed the problems affecting tax payers, the awareness of the tax obligation and performance of small medium enterprises.

2.1 Performance of small medium enterprises.

Kitinisa (2004) describes performance of small medium enterprises as the ability to attain its goals by using resources in an efficient and effective manner, the goals of the organization include; survival, profit making and expansion. Pandey (1979) looks at financial analysis as a measure of the organization or business performance. The assessment of financial performance of business entities has a well-established methodology that includes computation and interpretation of univariate and multivariate models. Univariate predictions of performance are single ratios calculated for efficiency (Makerere Business Journal, 1996). In this study, the researcher will consider performance of small medium enterprises in the perspective of the ability of the business to do the following below:-

- To meet its tax obligations.
- Cover its operating expenses and still retain some profits which can either be used for re-investment or otherwise.
- The ability of the business to make sales that sustain its expenses.

- the ability of the business to carry out expansion

2.2 Problems encountered by SMEs in trying to comply with tax policies.

Most businesses in Uganda are owned and managed by persons who are unskilled in the profession of accounting and thus do not keep proper books of accounts. These are especially sole proprietors and family businesses or partnerships. These generally do not keep books of accounts, have low sales turn over and change hands and business very often (Ravenous, 2005).

Mugulusi (2013) found out that a large proportion of business community is ignorant about taxes they pay, how these taxes are computed, lack of knowledge is attributed to the poor methods of sensitization used by URA.

According to Ravenous (2005), the following are some of the problems faced by tax payers;

- i. There is unfair treatment of tax payers, some of which are not necessary tax
- ii. Tax payers have little understanding of the obligation as a result of lack of tax education. It is said that URA would get fewer problems with tax payers if they were able to understand how their liabilities come about.

Tax

It can be defined as a compulsory and non-refundable contribution executed by government for public purposes. Payment is not followed by concurrent benefit in return. A tax is generally referred to as a compulsory levy imposed by the government upon the assesses of various categories. A tax is paid without a corresponding return in terms of goods or services from the government and hence it is referred to as a non-*quid pro quo* payment (Income Tax

Act, 1997)6A tax can also be defined as a contribution imposed on any person, business/property, for supporting central/local governments (Tayebwa, 1998).

Tax payer's knowledge

Most Ugandans have poor or lack understanding of the rationale of taxes and knowledge of different taxes imposed on them (Coping with taxes 1996). As a result, the tax compliance in Uganda is still low. Besides that, various surveys conducted on small medium enterprises in Uganda suggest that about 60% of them keep no records at all, while 25% keep partial records making it difficult to assess taxes (Ndandiko, 2013).

Alwedi (2002) found out that most SMEs are managed on unprofessional lines (poor or no business records) thus there is great uncertainty among traders in Uganda as regard to tax matters and to some extent due to their own making.

Ludega (2002) asserts that, many traders have expressed ignorance about taxes imposed on their businesses. They say that this is highly attributed to the poor work being done by the tax authorities leaving traders ignorant about issues like the way taxes are assessed, advantages of paying taxes and the use to which it is put. Therefore there is a need to sensitize the public especially business owners. The sensitization should be done on different taxes that impact the business owners and the rationale that underlines the imposition of taxes, because tax payers are not aware of the reasons for paying taxes, evasion of tax duties, laws and regulations are very rampant. (World Bank Survey, 1994).

The concept of taxation

This refers to assessment, collection, administration and management of taxes in Uganda. It deals with raising public revenue, managing public expenditure and public debt. It is the responsibility of URA). The general idea behind taxation is the provision of public goods and

services. However the benefits received by tax payers from the government are not related to or proportionate to the tax paid (Bhatia, 2002). Taxation is a payment which cannot be avoided without attracting a punishment and in return of which no gain or quid pro-quo is promised by the government to the tax payer. The government is responsible for providing to its citizens certain public facilities and services like roads, hospitals, schools, and market securities. There are two main tax authorities; the local government authority and the central government authority through Uganda revenue authority (URA).

Classification of taxes.

According to Manasseh (2000), taxes are classified as either direct versus indirect or proportional versus progressive tax.

a. Direct versus indirect.

1. Direct taxes are those that affect the individuals/firms directly through a deduction from earnings. Examples include; individual income tax, corporation tax, taxes on property and others.

2. Indirect taxes are those taxes that are paid to government by an intermediary and then passed on to the final user by including the tax in the final price. Examples include; export and import duties, excise and local production, value added tax (VAT) and others.

b. Proportional versus progressive tax

On the basis of equity, taxes are classified as proportional/progressive. A tax is said to be progressive when with increasing income the tax liability not only increases in absolute terms but also proportionate to income.

2.2 The purpose of taxation

According to Income Tax Act (1997), taxation is an important source of government revenue and an economic policy tool by government to attain economic growth. The importance of taxation therefore arises from debate of whether government should interfere in the operations of the market mechanism. Income Tax Act (1997) further noted that taxes may be levied for other reasons but revenue remains the prime objective of most taxes. Balunywa (1988) noted that, taxation has increased in importance not only as a tool of raising revenue for the traditional roles but also for accelerating the economic growth and ensuring social justice. The primary objective of taxation in underdeveloped countries is not related to stability of income and expenditure. These countries face number of problems of insufficient savings and capital accumulation, which calls for a need to promote specific products to fill both the supply and demand gaps. It is the problem of growth that covers a number of aspects; the tax system has to be designed to help the economy (Bhatia, 2002). According to the Uganda economic journal (1973), taxes can reduce the quality of resources consumed by the private sector. The Economic Journal (1973) also shows that, in stressing consumption reducing aspect, taxes may change the distribution of income and help to stabilize the economy.

Tax policies.

The World Bank has influenced many countries in under taking tax reform policies. For the case of Uganda, the tax base has remained significantly narrow since independence, leading to inadequate tax revenue. By May 2004, the tax ratio of tax revenue to GDP was just 18-20%. The composition of tax revenue has been predominantly important. Small medium enterprises are taxed differently compared to corporation or business with an annual turnover of above 50 million shillings. Medical practices, legal practices, engineering service,

accounting and audit practices are tax payers even when their turnover is less than 50 million shillings. As quoted by Kitinisa (2003), there are three broad approaches to tax policies and these are;

1. Application of the standard tax provisions to all business activities.
2. Taxing various business activities differently to achieve economic business policy such as; increase in private investment, exports or employment depending on the revenue needs, the second approval can result in a relatively high tax rates in some sectors and hence induce problems for compliance and adversely affect the general investment climate.
3. Uganda has gone through a number of tax policy reforms, these include; gender, nationalization, and harmonization of tax rates and tariffs, abolition of wide ranging exemptions, new tax incentives and conditional exemptions.

Approaches to tax administration

According to Bird (1974), tax administration refers to the identification of the tax payer, assessment of tax payable, collection of taxes and enforcement of tax liability.

According to Olman (1967), tax administration refers to a structure/procedure of identification of potential tax payer, collection and laws governing taxation.

RoyBahl (1988) says that much attention should be paid to critical aspects of tax administration, training, procedures, staffing, collection and use of information. The weaknesses in tax administration are mainly caused by lack of relevant information about the tax payer, continued criticism of the tax and its structure. The tax structure should be simple in order to avoid tax evasion.

Identification of a tax payer

Taxes are levied on individuals, groups or legal entities income earned. The identification of a tax payer is done with reference to natural or artificial persons who can earn income. However, for the purpose of this research we shall confine ourselves to business as a tax payer and a business can be defined as vocation, trade, profession, adventure in the nature of trade but does not include employment (Income Act, 1997).

Assessment of taxes

Income Tax Act (1997) section 3 (a), defines assessment as the ascertainment of the chargeable income and the amount of tax payable on it by the tax payer for a year of income. Assessment of tax is a process of ascertaining the amount of tax to be levied on a person or business according to his or its income. According to the income tax Act (1997) section 96 (11) the commissioner is required to make an assessment of the chargeable income based on his returns and on any other information available within seven years from the date the return was furnished. However, small medium enterprises are not required to submit in any return to the commissioner.

Small Medium Enterprises.

According to the Income Tax Act (1997), small medium enterprises are those with growth turnover of less than 50 million shillings per annum. In Uganda it's not only income tax Act that has tried to define small medium enterprises; there are also institutions which have tried to define small medium enterprises (SMEs) such as; Ministry of Finance Planning and Economic Development (MFPED),

The study considers small medium enterprises as possessing the following features;

- i) A business which employees 1-100 people.
- ii) Has a capital investment of less than shillings 40 million.
- iii) Has average annual revenue/sales of less than shillings 50 million.

Fines and penalties

Musgrave argues that in all matters of legal rules, better compliance can be served either by a higher penalty if the offender is caught or by well facilitating the enforcements so as to increase the probability of being caught. However, Bird (1974) argued that the law should provide an adequate penalty structure, appeal system and general administration. The penalty structure should be primarily financial in character and probably progressively related to the amount of tax evaded and the seriousness of the offence in case a tax payer fails to pay any tax including; provisional tax, any withholding tax or tax required to be withheld, the penalty is 2% simple interest per month on the amount unpaid calculated from the date on which payment was due until the date on which payment is made (Pius, 2001). Under estimating provisional income return is less than 90% of the tax payer's actual chargeable assessed for the year of income, the penalty is 20% of the difference between taxes based on provisional return as revised, and tax calculated in respect of the 90% of the actual income for the year of income.

Taxation and business performance

Taxes levied on revenue are worthwhile only if it can generate meaningful revenues at acceptable rates and procedures (Musgrave and Musgrave, 1984).According to Gordon and Dawson (1987), through taxation, the government takes away money from people they would otherwise spend on private sector. As a result, purchasing power reduces per unit of production in the private sector to the public sector. They further asserted that, one of the

most frequent arguments against high income tax is that it destroys the incentive to business people and employees to work harder and more efficiently. According to the World Bank Symposium (1991), businesses carry out tax planning so as to have a minimal tax liability and thus increasing the purchasing power. It is through taxes that the government takes away money from people/business they would otherwise spend on private sector. This loss of purchasing power reduces the demand for units of products in the private sector (Gordon and Dawson, 1987).

Taxes and profit levels.

The taxable profits of business are always different from the normal business account profits for three major reasons;

- Certain income which may be considered in the normal accounting system may not be liable to tax.
- Certain expenses that are deducted on profit and loss account may not be available when determining taxable income.
- Some tax allowances may be reflected in business account.

(Manasseh T. 2000).¹¹Gordon and Dawson (1987) assert that many business people have complained probably with some justification that taxes interfere with the opportunities to re-invest their profits in their businesses.

Taxation and investment

Given the fact that there are financial institutions and mechanism for collecting the community's savings and bringing them to investors, the level and patterns of investment is greatly influenced by taxes. This is because the investors are basically interested in making profit yet profitability of investment can be affected through various tax measures in the following ways;

- The possibility of taxing savings themselves. If this happens, the investor will experience a low level of savings and the overall level of investment will be low.
- The authorities might tax earnings from investment to an extent that it might become a problem for the firm to raise adequate resources in the market.
- If the retained profits of the firm are taxed, they didn't mainly depend much upon their internal resources for expansion, they also had to borrow and invest.

2.3 Problems that affect SMEs on accessing finance.

According to the findings, it has been noted that the problems that affect the SMEs on access finance include:-

The inherent challenges faced by SMEs in Uganda on access to finance include the following below:-

lack of entrepreneurial skills; lack of general skills in management, marketing and financial planning, lack of business plans; lack of business records; deficient corporate governance; short-term business outlook; poor banking and borrowing history; and a culture that disrespects business contracts.

SMEs are also confronted with fierce local and international competition, limited access to BDS; limited access to information on market opportunities and sources of competitive technology. These limit substantially the productive capacity and competitiveness of SMEs in Uganda within the context of globalization. It is against this background that this document has been produced, to bridge the existing information

Small and Medium Enterprises

2.4 Conclusion.

This chapter was analyzed using a cross section of literature dealing with taxation and the performance of SMEs. However, most of the literature review may not give all the details about how taxation affects the performance of SMEs. Therefore there was also the need to carry out a primary research to close the gap between research variables as this was not made clear literature reviewed.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter covered the background against which data was gathered. It discusses the research design, study population, sampling, and study variables, sources of data, data collection methods and instruments, data processing, analysis and presentation and limitations of the study.

3.1 Research design

The researcher used a cross sectional survey design basing on the use of qualitative and quantitative approaches were adopted to establish the relationship between taxation and performance of small scale businesses (Amin, 2005). This design will be used for profiling, defining, segmentation, estimating, predicting, and examining associative relationships. Cross Sectional studies easily provide a quick snapshot of what's going on with the variables for the research problem.

3.2 Study population

The study comprised of Managers or business owners and employees of small medium enterprises in Mbale Central Market in Mbale District.

Table 3.1 Study Population

Respondents	Study population	Sample size	Sampling techniques
Managers	20	11	Random Sampling
Business owners	28	23	Questionnaires
Employees	32	26	Radom sampling
Total	80	60	

3.3 Sampling size.

The study involved 60 respondents. This sample size may be assumed by the researcher to be representative enough of the entire population. There were 11 managers where random sampling was done, 23 business owners where Questionnaires were used and finally 26 employees were used as a sample size and random sampling was used.

3.4 Sampling methods.

A variety of sampling methods may be used in the study. This involved the use of questionnaires and random sampling.

3.5 Data collection procedure.

After the proposal of a self-designed questionnaires and interview guide have been approved, the researcher got a letter from the course coordinator that's to say the Faculty of Business Administration and Management, Mbale Campus so as to introduce him to the Mbale Central Market Authorities. He then connected with some of his friends working in the Central Market to help him acquire the required information besides the residents of the sample area.

These people were his friends with lock ups and shops he knows well, family friends and colleagues within the residence the some agents in the business world. The copies of the questionnaires will be designed, distributed and the interview schedules made.

3.6 Data collection techniques and data collection instruments.

3.6.1 Data collection techniques.

Two types of data for the study may be used and they include the primary data and secondary data. The researcher mainly depended on primary data which involve direct interaction in the field using the survey method for the data collection which aims at getting the original information. The secondary data were made good use of. These consisted library materials, media such as the local radio news among others.

3.6.2 Data collection instruments

For the study, the researcher dominantly utilized self-administered designed questionnaires the reason being that the study sampling population are mostly literates who can read and write. The questionnaire may be designed in the format that covers engulfs the variables in accordance with the objectives of the study. The researcher aiming and interested in specific data, a closed ended questionnaires were provided to the employees categorically depending on the choice and its ease. The self-administered designed questionnaire

3.7 Data validity and reliability.

The self-administered questionnaires were tried by some friends and colleagues the supervisor weighed and assessed if the questions and answers followed the designed format. The trials were done at different periods to check consistency in the data and to also facilitate the searcher to upgrade the questionnaires accordingly. The reliability can be determined from the results attained by the searcher.

3.8 Data processing, presentation and analysis.

3.8.1 Data processing.

Data editing, sorting, coding and presentation was done by the researcher before the analysis and the discussions done. It involved righting the errors of omission among others.

3.8.2 Data analysis.

The data was analyzed using descriptive statistics. This was in line with Mann who stated that descriptive statistics can be used in case data is structured. The comparisons of the data were done by considering the percentages.

3.8.3 Data presentation.

The data was presented on the findings of the impacts of access to finance on Small Medium Enterprises and reviewed both theoretical and empirical literature about the findings. The analyzed data was presented in a precise form for making precise interpretations and drawing conclusions.

3.8.4 Sampling design

The study mainly used two methodologies. These were questionnaires, and simple random sampling methodology.

This method especially to learn about things that the respondents could not be aware of and not willing to discuss in the interview or as regards the activities of their businesses towards their provision of employment to the labor force.

3.9 Limitations to the study

During the research study, many problems were encountered among which included the following;

Information concealment; This came about by the respondents mistaking me and my assistants as a revenue agent from the Uganda Revenue Authority since most of the SMEs lacked the necessary documents like trade licenses and tax slips that authorize them into business.

Most respondents did not have time to answer questions yet this was the core of the study. This was because of fear from the “Bosses” (Business Owners) who reserve the rights to take on any action for the control of employee activities. Nevertheless the need to attend to customers also limited my study since they are taken to be “the utmost Bosses of the business” as explained by the statement “The customer is my Boss.”

Some data was outdated. For data about the SMEs in the libraries for review was so old and sparse since it was only information far back as 5 years ago yet there are so many changes that have taken place that render the information inapplicable to current situations.

In spite of all the setbacks, the study was carried out and the best possible solutions were adopted to ensure that it is completed for instance the use of the University Identity Cards to provide our identity as students rather than tax agents.

CHAPTER FOUR

DATA PRESENTATION AND INTERPRETATION OF FINDINGS

4.0 Introduction

This chapter highlights the presentations, interpretations and discussions of collected data in tables and among others where 60 respondents were interviewed to provide information about the subject of study. This is in accordance with the research questions.

4.1 Background information of respondents

Table 4.1: Number of people who own a business

RESPONDENTS	FREQUENCY	PERCENTAGE (%)
Males	32	53.3
Females	28	46.7
TOTAL	60	100

Source: Primary Data

From the table 4.1 above, it is indicated that there are more males than females that are participating in the small medium enterprise operations. This is so because the males have a greater share of 53.3% as regards the ownership of the business compared to women. This implies that most of the Small Medium Enterprises are operated by men for purposes of supplementing on their incomes to enable them sustain an improved standard of living.

Table 4.2: The number of respondents employed by SMEs

RESPONSE	FREQUENCY	PERCENTAGE
5 to 10 people	14	23.3
10 to 15 people	25	41.7
15 to 20 people	21	35.0
TOTAL	60	100

Source: Primary Data (2016)

According to the table 4.2 above, SMEs are those businesses that use more labor to sustain their activities. In Mbale Central Market for every business there are about 10 to 15 people being employed implied that the businesses are labor intensive hence contribute to 41.7% of the labor force provided employment. It is from this that the poor benefit since they can easily access the opportunities generated by these small medium units in the area of study.

Table 4.3: Size of the business and level of employment in Mbale Central Market.

SIZE OF BUSINESS	FREQUENCY	PERCENTAGES (%)
Micro	17	28.3
Small	33	55
Large	10	16.7
TOTAL	60	100

Source: Primary Data (2016)

The size of the business was dependable on the structural set up of the management. All businesses that had a clear managerial structure that composed of a single Boss who is also the entrepreneur and the support staff was categorized to be operational at a small level and this is showed by a greater percentage of 55% in Mbale Central Market while those that had only Own boss at the highest level of administration operated at a micro level with 28.3%, and those with the Board of directors and support staff operated at large scale as indicated by 16.7% in the table. This therefore implies that small medium enterprises have limited bureaucracies that run there administration of activities.

This implied that most businesses that operate at small medium enterprises with Own boss and support staffs provided more employment opportunities to the labor force since they needed little technical skills because the support staff is under the direct supervision of the business proprietor as showed by the figure below;

Source: Primary Data (2016)

Table 4.4: Source of startup capital

SOURCE OF FINANCE	FREQUENCY	PERCENTAGE
Did not need any money	9	15.0
Own savings	23	38.3
Loans	18	30.0
Friends and relatives	10	16.7
TOTAL	60	100

Source: Primary Data (2016)

It is indicated that the major source of startup capital for most businesses was own savings. This is because most of the entrepreneurs in the area of study were previously employed by larger businesses from where they were able to secure personal savings that accumulated over time and enabled them to start up their own businesses at a small medium scale since these require little startup capital.

However, others obtained their startup capital in form of loans from financial institutions that are accompanied with interest rates over a specified period as others from friends and relatives at negotiable terms of repayment. Note that there are some businesses that never needed any capital because of the marketing skills adopted by the large scale businesses in the process of widening the market base by opening up other branches within the same place.

4.3 The challenges that limit the contribution of small medium enterprises towards development

Findings on challenges limited the contribution of small medium enterprises towards development were identified according to the responses from the various business units that were contacted;

Table 4.5: Number of enterprises with challenges

RESPONSE	FREQUENCY	PERCENTAGE (%)
Yes	56	93.3
No	7	6.7
TOTAL	60	100

Source: Primary Data (2016)

According to the analysis in table 4.5 above, 93.3% of the business community accepted that they were limited by for other reasons other than managerial and structural set up of their businesses compared to 6.7% who support the cause to be attributed to the above factors. Therefore various challenges were put forward as below since they need attention so as to induce the contribution of small medium enterprises to development.

Table 4.6: Challenges to the SMEs

CHALLENGES	FREQUENCY	PERCENTAGE (%)
Taxes and regulations	17	28.3
Competition	11	18.3
Lack of storage facilities	9	15
Inflation	15	25
Transport costs	5	8.3
Others	3	5
TOTAL	60	100

Source: Primary Data (2016)

From the table 4.6 above, 28.3% of the business units noted that taxes and regulations is the most challenge to their businesses these are usually so high yet they are also price takers and have no influence in determining the prices of their products. One would however recommend them to follow the law of demand and supply but still this is under the control of price flows and ceilings. Rather it would be better if the GoU revises its policies as regards business so as to ensure incentives and tax holidays are provided some products.

Competition is another limitation that is faced by the businesses. According to analysis, 18.3% of the respondents agree that this is a challenge brought about by those businesses that possess dynamic capabilities, credible with licensing, taxation and enhances their access to

rationed resources such businesses can easily out-price and out-sell the small businesses thus contributing to improved performance for development. SMEs can therefore reduce on the effect of competition by networking with medium and large businesses, better infrastructure and larger markets.

Lack of storage facilities is also a limitation by the business units in Mbale Central Market at 15%. This is especially to those that hardly afford the costs to rent tied shops and rather resort to street retailing and hawking the fact that they have little startup capital that cannot sustain them to possess stores for their products. Suggestions are mostly referred to Government to improve on the infrastructural development in the form of huge stores managed by the government to be rented at subsidized amounts in the favor of the business fraternity.

Inflation contributed to 25%, this is in reference to the persistent increase in the prices of the product that the SMEs deal with. This limits their decisions on which price level to sell their products since this is attributed with high taxes. Inflation to them can only be reduced by widening the market base for the large and medium businesses abroad so as not to compete with the small scale businesses. In this way they will be generating foreign incomes that will help improve the value of a shilling against a Dollar and this will endure small scale businesses to increase in the provision of employment opportunities to the labor force.

Transportation costs with a minor percentage of 8.3% are attributed to poor roads for accessibility purposes in the process of widening their markets. This has increased on their costs since access to rural areas is difficult and this to the business fraternity in the area of study would only be solved by construction of better road networks to the industrialized areas where the SMEs obtain their products.

However, other solutions have been put forward in support of the small medium enterprises so as to sustain their activities as they provide employment to the labor force. These included;

- i. Traditional Guarantee Associations such as BCU.
- ii. Financial Sector Development
- iii. Market expansion and diversification
- iv. Good Governance
- v. Human and cultural capital development

Table 4.7: Relationship between access to finance and performance on Small Medium Enterprises.

		Access to finance	Performance of SMEs
Access to finance	Pearson correlation	1.000	0.838**
	Sig.(2-tailed		0.000
	N	60	60
Performance of SMEs	Pearson correlation	0.838**	1.000
	Sig. (2-tailed)	0.000	
	N	60	60

** Significant at the 0.01 level (2-tailed).

From the findings, there was a strong positive relationship between finance and performance on the small medium enterprises at Pearson correlation coefficient at 0.838. This implies that for every kind of access to finance involved led to increased performance of SMEs. For instance, each kind of access to finance enhances their performance so as to increase on their contribution to development.

CHAPTER FIVE:

CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter involved a summary of the findings, discussions, and recommendations that are based on the objectives, the problem statement, and well as the recommendations are based on the findings.

5.1 Summary of the Finding.

He revealed that majority of the different classifications and activities of the businesses were operated at small medium enterprises, were managed by own boss and support staffs, had their source of startup capital from own savings

5.2 Conclusions of the study.

The study revealed that most business owners had challenges that hindered their business operations, taxes and other regulations. Problems in the context acquisition of licenses for registration, duplication of products have been attributed to competition. This has culminated into the widening of markets.

That small medium enterprises mostly improve incomes and welfare of individuals, from their businesses knowledge or skills and business partners, competition for jobs associated with social responsibilities encouraged most business people to start businesses, the kind of activities engaged in by the businesses have enabled them to absorb labor force through the provision of employment opportunities.

The study revealed that most people owners used own savings as a startup capital for their businesses hence operating at a small level with a structural hierarchy of own boss and support staffs thus leading businesses to small medium enterprises with more than 5 employees. Despite the challenges faced by the small medium enterprises as taxes and other regulations, competition from similar operations, transportation costs, efforts have been undertaken to enhance the impacts of access to finance and performance on small medium enterprises.

5.3 Recommendations

Small Medium Enterprises needed to employ professionals to manage their businesses that was improve on their performance since these were establish and strengthen the internal controls as regards financial resources to reduce on mismanagement and misappropriations. It is through this that small medium enterprises whose startup capital is based on own savings were easily access financial institutions for loans to enhance their business operations towards employment provision.

Small medium enterprise operators should widen their markets so as to reduce competition this should be done by integrating market information into the planning process because marketing is the life blood of a competitive marketplace as it is driven towards the needs and desires of customers in the production decisions. This should be done with the help of the Government through tax exemption strategies for investment and direct financial support to small medium enterprises.

Government should introduce motivation incentives in support of the small medium operations for examples increased salaries, wage tax holidays and other non-monetary

rewards. This would improve on the performance of businesses towards development and access to finance.

The decision makers of the small medium enterprises should adopt the best form of organization that can address the following issues with help of updated technology;

- i. The life and continuity of the business
- ii. The operating flexibility of the employees
- iii. The ease and expense of making the business recognized
- iv. The ease with which capital can be acquired to support business operations
- v. The ability to control the business without jeopardizing other activities in which they are involved.
- vi. The need to create conducive factors to easy accessibility of finance.

Government should involve draft policy frameworks for small medium enterprises that focus on the legal and regulatory conditions, capacity building in support of improving the business environment to increase competition and promote the private sector. Emphasis should be on enabling accessibility of finance to improve SMEs.

5.4 Areas for Further Research

Further research should be carried out on the following;

The effect of information technology on the performance of Small Medium Enterprises.

The role of financial and non-financial Institutions in the development of Small medium enterprises.

The effect of procurement ethics on the performance of Small Medium Enterprises

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QUESTIONNAIRE:

**THE IMPACTS OF ACCESS TO FINANCE ON PERFORMANCE OF SMALL
MEDIUM ENTERPRISES**

Dear Respondent,

My name is Osinde Earnest Aaron

Earnest, a student at Uganda Martyrs University pursuing a Bachelors of Business Administration and Management. I am conducting a study on the impacts of access to finance on performance of Small Medium Enterprises. The information obtained will help me fulfill the requirement for the Award of the Degree and will be kept confidential for academic purposes only.

1. Do you have/own a business?

a) Yes

b) No

2. What is the physical address of your business?

.....
.....

3. Does your business employ other people?

a) Yes

b) No

4. If yes, how many people?

a) Less than 5 people

b) 5 to 10 people

c) 10 to 15 people

d) 15 to 20 people

5. Sex/ Gender

a) Male

b) Female

6. What is the level of education for your staff?

a) Primary

b) Secondary

c) Diploma Holder

d) Degree Holder

e) Not educated

7. What is the size of your business?

a) Small

b) Medium

c) Large

8. In what way was your business managed?

a) Own Boss, employees or support staff

b) Own Boss

c) Directors, Managers, Support staff

d) Directors, Secretary, Accountant, Support staff

The following questions are directed towards Business and its Operations as well as activities.

9. What was the source of startup capital for your business?

a) Did not need any money

b) Own savings

c) Loans from micro finance institutions

d) Friends and Relatives

10. What kind of activities does your business do?

a) Hawking

b) Tied shop Business

c) Street retailing

d) Market place Business

e) Manufacturing

f) Mobile Shop Business

11. Small medium enterprises provide work to the unemployed persons.

a) I agree

b) I disagree

c) I strongly agree

d) I strongly disagree

12. Which of the following is a role played by Small medium enterprises?

a) Distribute Money amongst workers

b) Develop other industries in the country

c) Improve your income

d) Reduce poverty

13. Please give any other benefits you get from your Business

i).....

ii).....

14. Which of the following is a reason that encouraged you to start such a business?

a) Poverty alleviation programmes like NAADS, PEAP

b) Little money required by the Business

c) Competition for jobs

d) Donations

e) Open boarder trade like COMESA, EAC

f) Government policies like tax regulations, Licenses

15. Do you have any other reason(s) that was specific to you?

a) Yes

b) No

16. Give two of those reasons above

i)

ii)

17. Did you have any challenges in your business?

a) Yes

b) No

18. If yes, Please give any three of those challenges.

i)

ii).....

iii)

19. What have you done to overcome them?

i)

ii)

20. Do you think these would also be solutions to the above?

- a) Traditional Guarantee Association e.g. Private sector foundation, BCU.
- b) Financial sector development
- c) Market expansion and diversification
- d) Good Governance